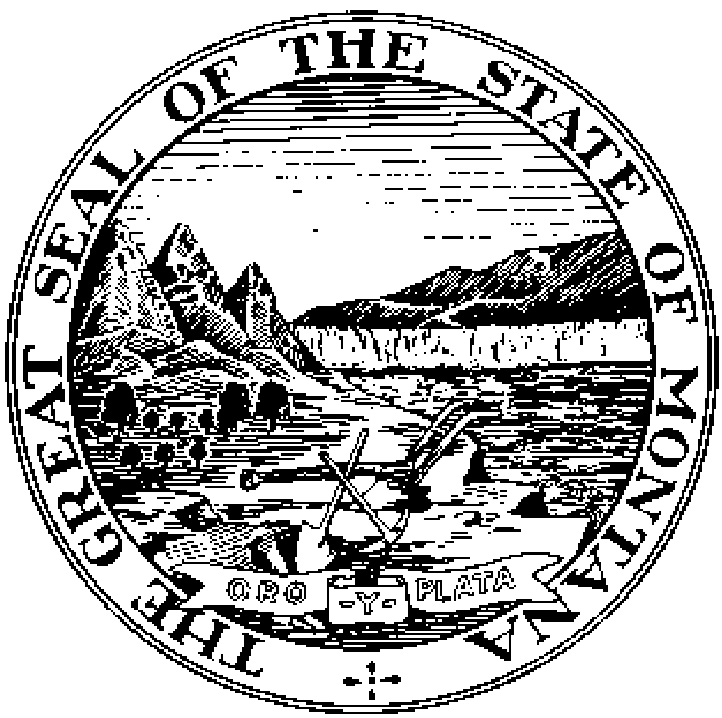
# GUIDE TO TAXES

## ADMINISTERED BY
## THE MONTANA DEPARTMENT OF REVENUE

# January 2001




Compiled by
Tax Policy and Research (**TPR**)

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Mitchell Building, Helena, MT  59620 (406) 444-6900

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## STRUCTURE AND FUNCTIONS OF THE DEPARTMENT OF REVENUE

**Mission Statement -** The Department of Revenue is a service-oriented and accountable organization where customers and employees are treated with courtesy, respect, and fairness; and where effective revenue, compliance, and collection services are provided to the public and to other governmental units in a fast, accurate, and cost-effective manner.

The **Director's Office** (444-2762) advises the governor on all matters affecting the agency, recommends changes to Montana tax laws and policies, provides policy direction to all department processes, and develops and presents the department's biennial budget. The director's office is composed of four sections.

**Office of Dispute Resolution** reviews, facilitates, and resolves taxpayer disputes internally through a variety of means, including mediation.

**Office of Legal Affairs** supervises the overall legal efforts of the department, supervises the staff attorneys, and maintains liaison with retained attorneys.

**Policy and Performance Management** (PPM) provides policy direction, strategic planning, administrative rules, and performance management for department operations. PPM measures and facilitates the performance of department processes and ensures that department-related legislation is implemented efficiently.

**Tax Policy and Research** (TPR) is responsible for estimating state general fund revenues, coordinating Department of Revenue (DOR) legislation, preparing fiscal notes for most tax policy legislation, and reviewing all revenue-related legislation. TPR also analyzes economic and statistical data, compiles department research data, and conducts revenue-related research for the DOR and for external stakeholders.

## PROCESSES WITHIN THE DEPARTMENT OF REVENUE

**Information Technology** (IT) - provides services in the area of data support, applications support, technology support, and user assistance which enables the department to meet its business objectives.

**Resource Management** (RM) - integrates human resources, accounting, facilities, internal and external customer education, and liquor distribution into a division that focuses on service and support to the department.

**Customer Service Center** (CSC) - combines the document and information processing, accounts receivable and collections, and customer intake processes into a single business unit designed to collect revenue and process documents for the department and agency partners.

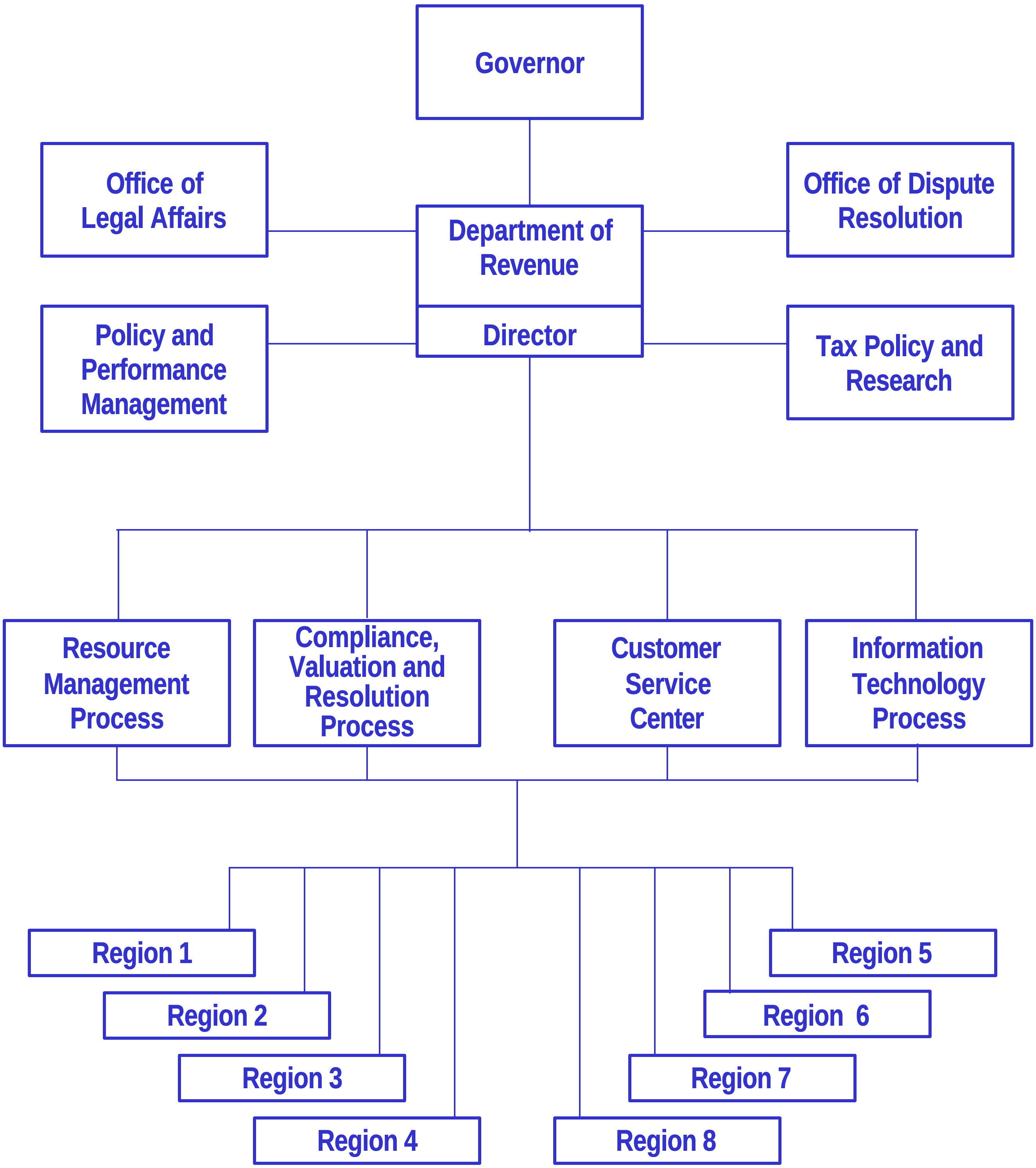
**Compliance, Valuation and Resolution** (CVR) - administers audits and appraisals to ensure that tax paying entities are in compliance with the laws. The process is located throughout the state in eight regions to provide superior customer service. Regions 1-6 are located throughout the state and focus on individual and small businesses. Regions 7 and 8 are based in Helena. Region 7 is responsible for field audit activities, industrial appraisal, and centrally assessed property. Region 8 is responsible for all tax return processing, office audit activities and appraisal quality. This organization provides for enhanced customer service and improved efficiency in the department.

## DEPARTMENT OF REVENUE - LEADERSHIP

**GENERAL INFORMATION - 444-6900**

| | | Phone |
|---|---|---|
| **DIRECTOR** | MARY BRYSON 1997 - 2000 | 444-1900 |
| | KURT ALME 2001 - | 444-1900 |
| **DIRECTOR -ADMINISTRATIVE ASSISTANT** | SANDY LANG | 444-2762 |
| **OFFICE OF LEGAL AFFAIRS** | Dave Woodgerd | 444-2854 |
| **TAX POLICY AND RESEARCH** | Judy Paynter | 444-2554 |
| **POLICY AND PERFORMANCE MANAGEMENT** | Jeff Miller | 444-2842 |
| **INFORMATION TECHNOLOGY** | Dan Ellison | 444-1618 |
| **RESOURCE MANAGEMENT** | Lynn Chenoweth | 444-3581 |
| **CUSTOMER SERVICE CENTER** | Neil Peterson | 444-1941 |
| **COMPLIANCE, VALUATION & RESOLUTION** | | |
| **District 1** | Don Hoffman | 444-3587 |
| **District 2** | Randy Wilke | 444-3717 |
| **District 3** | Dolores Cooney | 444-9848 |

## Department of Revenue Organizational Chart 2000



## GUIDING PRINCIPLES OF TAXATION

Sound tax policy should be driven by fundamental, underlying principles of taxation. Currently, Montana does not formally have any universal principles for taxation to guide policymakers and lawmakers in establishing revenue and tax policies. The implementation of universal guiding principles would provide a conceptual framework for policy makers, lawmakers, and the citizens of Montana to measure the performance and quality of our state tax structure with regard to revenue and tax policy, and promote stability and consistency in tax laws.

Montana will be faced with many issues and proposals regarding tax reform during the upcoming legislative session. Current and future efforts to reform Montana's tax system should be founded in principles of tax policy that are appropriate to the specific circumstances and needs of this state.

Eight universal guiding principles for taxation are shown below. These principles provide a foundation for policymakers and lawmakers for developing revenue and tax policy.

A sound taxation system should embody the following principles:

**Simplicity.** There are two aspects to simplicity. First, a high quality tax system should be clear and understandable to the taxpayer, and minimize the cost of complying with tax laws. Second, tax systems should be easy to administer, and promote efficient and effective administration that is uniformly applied.

**Accountability.** Tax systems must be accountable to the citizens they are designed to serve. Taxes and tax policy must be explicit, with taxes clearly visible and not hidden from taxpayers. Proposed policies should be highly publicized and open to public debate.

**Economic Neutrality.** This principle suggests that tax systems should exert a minimal impact on spending and business decisions of individuals and businesses.

**Equity.** While equity, like beauty, is often in the mind of the beholder, generally recognized principles of taxation suggest that a state's revenue system should treat similarly situated taxpayers similarly, minimize regressivity in the tax system and, to the greatest extent possible, minimize the tax burden on poor households.

**Complementarity.** This principle suggests that a healthy relationship should exist between state and local taxing authorities, whereby the state is always mindful of how tax decisions affect local governments, and vice-versa.

**Competitiveness.** In the past decade, interstate and international competition has intensified, pressuring policymakers to use tax systems as a tool of economic development. This principle suggests that high-quality revenue systems will be responsive to competition.

**Balance.** Quality tax systems rely on a variety of broad-based taxes. Most states adhere to this principle by relying on the traditional "three-legged stool" of income, sales, and property taxes to keep tax rates low, provide stability, and to control equity in their systems.

**Reliability.** Reliability encompasses adequacy, stability, and certainty in taxation and revenue flows. This principle asserts that revenues should be sufficient to cover anticipated government expenditures, should be stable in growth and not subject to unpredictable fluctuations, and should provide certainty with respect to the financial planning of individuals and businesses.

## Department of Revenue State Collections - Fiscal Years 1996 - 2000

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Individual Income Tax** | | | | | |
| Income Tax Withheld | $ 278,399,600 | $ 313,213,643 | $ 338,489,478 | $ 354,150,183 | $ 366,445,198 |
| Income Tax All Other | 104,692,012 | 93,062,097 | 105,671,251 | 128,881,386 | 149,816,713 |
| Subtotal | 383,091,612 | 406,275,740 | 444,160,729 | 483,031,569 | 516,261,911 |
| **Corporation License Tax** | 75,761,891 | 81,999,138 | 77,928,498 | 89,624,560 | 99,772,150 |
| **Natural Resources Taxes (State)** | | | | | |
| Coal Severance Tax | 36,260,949 | 37,740,212 | 35,045,243 | 36,767,488 | 35,469,791 |
| Oil Severance Tax | 11,417,361 | - | - | - | - |
| Natural Gas Severance Tax | 1,412,006 | - | - | - | - |
| Oil and Gas Producer's P&L Tax | 825,583 | - | - | - | - |
| Oil and Gas Production Tax | - | 16,004,744 | 11,185,290 | 7,505,617 | 11,362,742 |
| Resource Indemnity Trust Tax | 3,351,177 | 1,345,199 | 1,379,111 | 1,271,739 | 1,322,534 |
| Metalliferous Mines License Tax | 6,941,131 | 4,648,564 | 3,977,699 | 5,700,013 | 4,704,574 |
| Subtotal | 60,208,207 | 59,738,719 | 51,587,343 | 51,244,857 | 52,859,641 |
| **Other Taxes, Licenses and Services** | | | | | |
| Unemployment Insurance Tax | 62,465,253 | 62,735,866 | 62,976,826 | 59,826,218 | 61,082,845 |
| Old Fund Liability Tax* | 45,254,475 | 49,770,930 | 52,650,637 | 28,722,320 | 1,892,208 |
| Cigarette Tax | 12,969,137 | 13,267,374 | 13,244,550 | 12,265,347 | 11,766,271 |
| Inheritance Tax (Net) | 15,404,110 | 14,562,382 | 15,726,605 | 18,301,680 | 19,038,785 |
| Lodging Facility Use Tax | 9,197,924 | 9,509,673 | 10,008,143 | 10,773,706 | 11,119,551 |
| Telephone License Tax | 5,711,933 | 6,045,081 | 5,773,341 | 6,036,769 | 3,490,590 |
| Telecommunications Excise Tax | - | - | - | - | 6,366,299 |
| Electrical Energy Tax | 3,520,407 | 3,849,052 | 4,401,728 | 4,618,433 | 4,829,002 |
| Wholesale Energy Transaction Tax | - | - | - | - | 1,705,093 |
| Nursing Facility Bed Tax | 6,579,620 | 6,572,123 | 6,200,413 | 5,713,357 | 6,054,947 |
| Public Service Regulation Tax | 1,915,092 | 1,780,150 | 2,154,289 | 2,383,511 | 2,309,137 |
| Tobacco Products Tax | 1,579,547 | 1,702,313 | 1,801,084 | 1,817,971 | 2,042,241 |
| Emergency Telephone 911 System | 2,100,359 | 1,719,562 | 3,666,571 | 2,868,094 | 3,145,387 |
| Contractor's Gross Receipts Tax | 1,621,441 | 1,963,791 | 2,290,944 | 3,320,401 | 2,162,223 |
| Rail Car Tax | 780,125 | 6,309,000 | 2,054,244 | 2,074,000 | 2,100,600 |
| Abandoned Property | 1,272,859 | 1,240,407 | 1,831,638 | 1,247,508 | 2,637,532 |
| Telecommunications Service Fee | 598,763 | 683,717 | 728,017 | 570,089 | 828,183 |
| Consumer Counsel Tax | 815,801 | 781,279 | 779,809 | 877,935 | 934,826 |
| Other Taxes, Licenses and Services | 217,697 | 200,817 | 188,126 | 189,766 | 183,152 |
| Subtotal | 172,004,543 | 182,693,517 | 186,476,965 | 161,607,105 | 143,688,872 |
| **Liquor Taxes, Profits, and Licenses** | | | | | |
| Liquor Profits, Licenses (to GF), and Tax Receipts | 11,191,611 | 10,260,292 | 11,394,940 | 12,085,603 | 12,258,887 |
| Liquor, Beer, and Wine Taxes | 12,094,518 | 11,074,324 | 11,440,392 | 11,891,047 | 12,673,526 |
| Subtotal | 23,286,129 | 21,334,616 | 22,835,332 | 23,976,650 | 24,932,413 |
| TOTAL COLLECTIONS | $ 714,352,382 | $ 752,041,730 | $ 782,988,867 | $ 809,484,741 | $ 837,514,987 |

*Source*: *LFD Revenue Profile Report, SBAS 1999, SABHRS 2000, etc.*.

*On January 1, 1996, all state and local oil and gas taxes were combined into the Oil and Gas Production Tax. Since the consolidation took effect in the middle of a fiscal year, figures are combined for old law and current law collections.*

*Also, a portion of new Oil and Gas Production Tax is allocated to local governments, those collections are detailed in the Natural Resource Tax section of this report.*

*Indicates Old Fund Liability Tax was discontinued in FY1999.

## Tax Structure Trends in Montana

The six charts on the next three pages (7, 8, and 9) provide a graphic illustration of Montana's general tax structure. Using tax collection data from 1984 through 2000, the charts show how Montana's tax structure has changed over time. For most states, the tax structure is typically characterized as a "three-legged stool" consisting of income, property, and sales taxes. In Montana, the sales tax leg of this typical tax structure is comprised of natural resource taxes (e.g., coal, oil, and natural gas severance taxes) and selective sales taxes (e.g., cigarette and alcoholic beverage taxes). Income taxes include taxes levied on corporations as well as individuals; property taxes include state and local property tax levies.

The four tax categories represented on the six charts on the following pages are consistently comprised of these items:

### Property Taxes

The Property Tax category includes:

- Property Taxes
- All S.I.D. and R.I.D. Amounts
- All Fees Paid on Property

### Income Taxes

The Income Taxes category includes:

- Individual Income Taxes
- Corporate License Taxes

### Natural Resource Taxes

The Natural Resources taxes category includes:

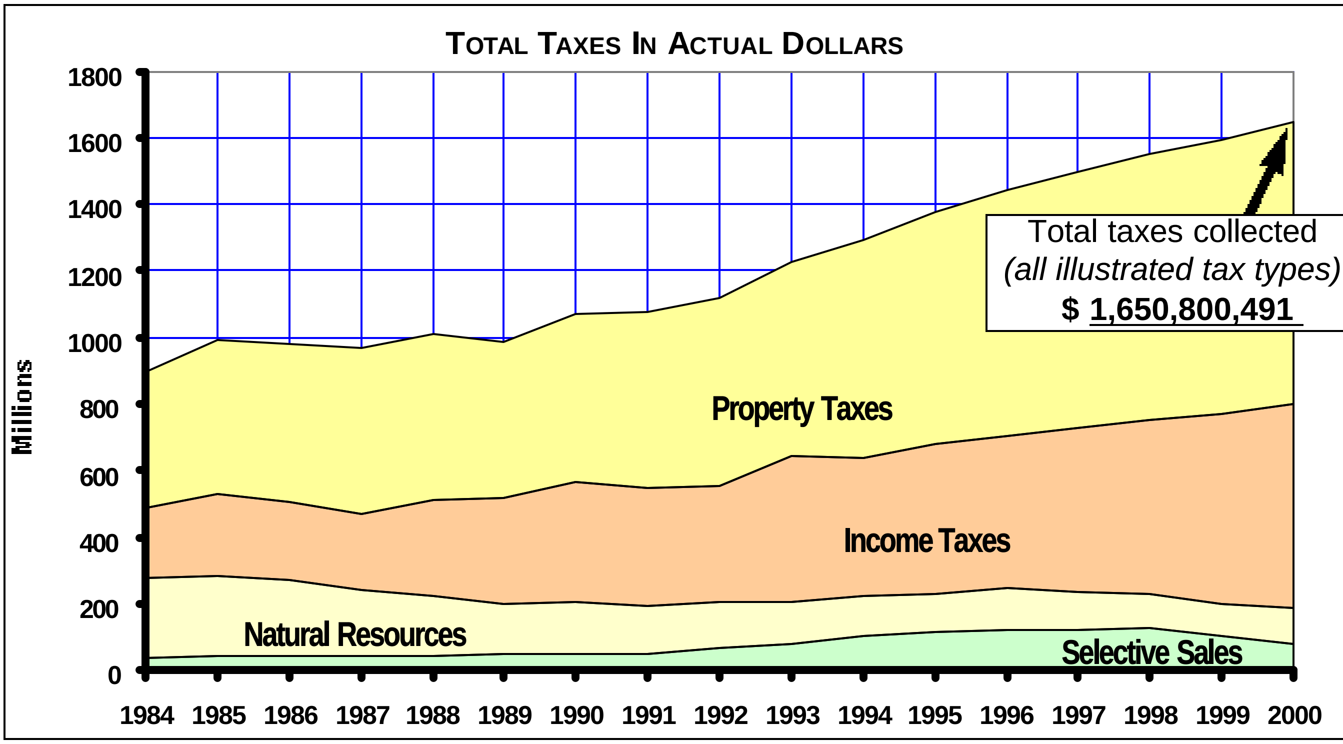
- Coal Severance Tax
- Coal Gross Proceeds Tax
- Oil and Natural Gas Production Tax
- Metalliferous Mines License Tax
- Metal Mines Gross Proceeds Tax
- Miscellaneous Mines Net Proceeds Tax
- Resource Indemnity and Groudwater Assessment Act (RIGWAT)
- Cement/Gypsum Tax
- Electrical Energy Production Tax

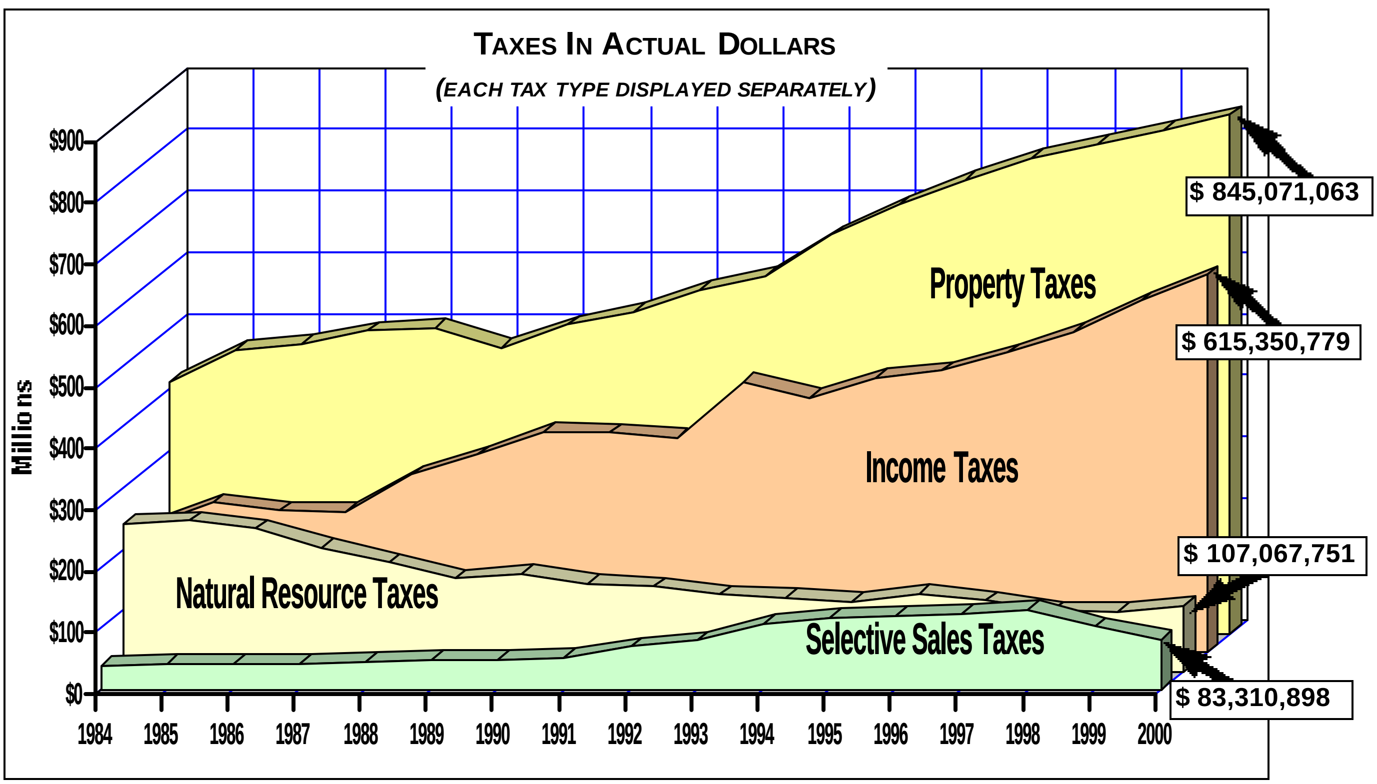
### Selective Sales Taxes

The Selective Sales Taxes category includes:

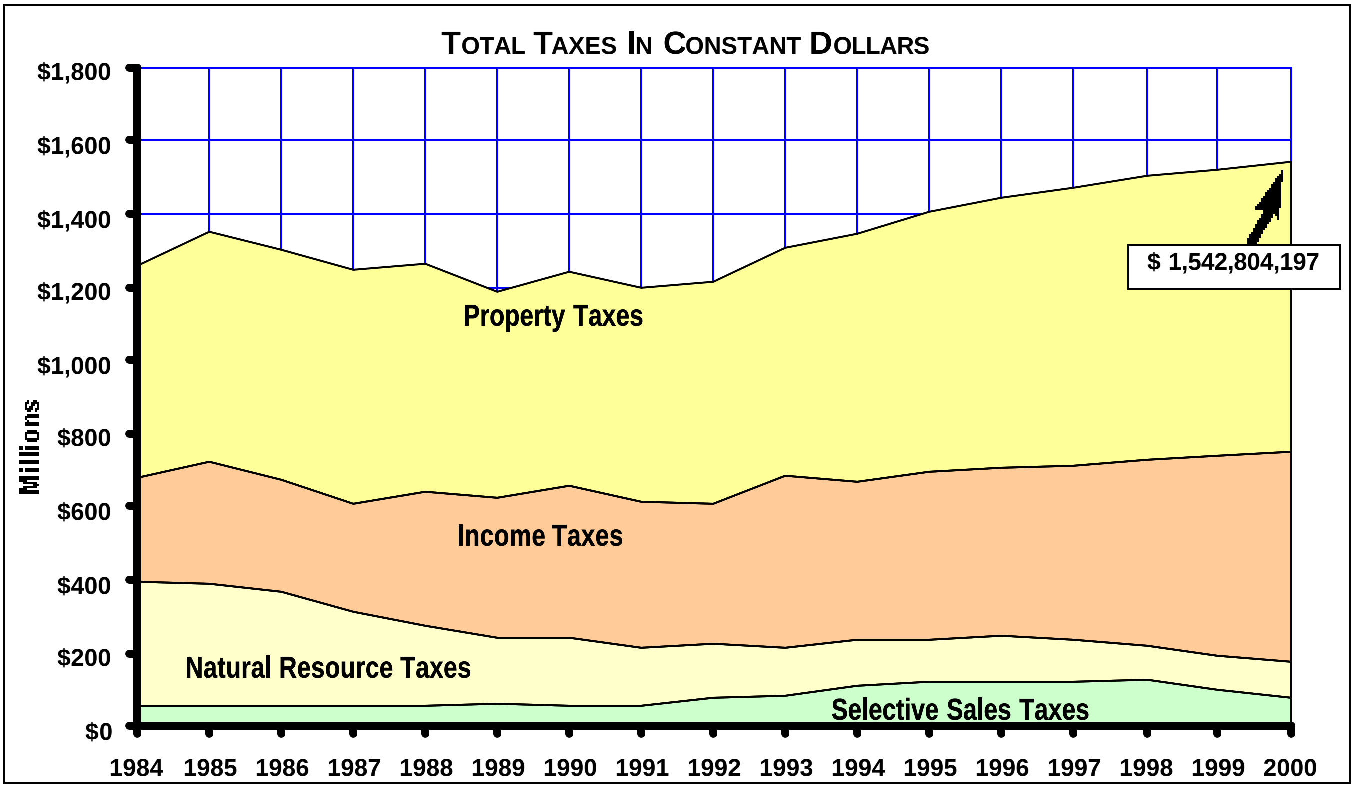
- Liquor Excise Tax
- Liquor License Tax
- Beer and Wine Tax
- Old Fund Liability Tax
- Inheritance Tax
- Lodging/Accommodations Tax
- Telecommunications License
- Nursing Bed Tax
- Public Service Regulation Tax
- Tobacco Products Tax
- Statewide 911 Fee
- Contractor's Gross Receipts Tax
- Consumer Counsel Tax
- Other Taxes

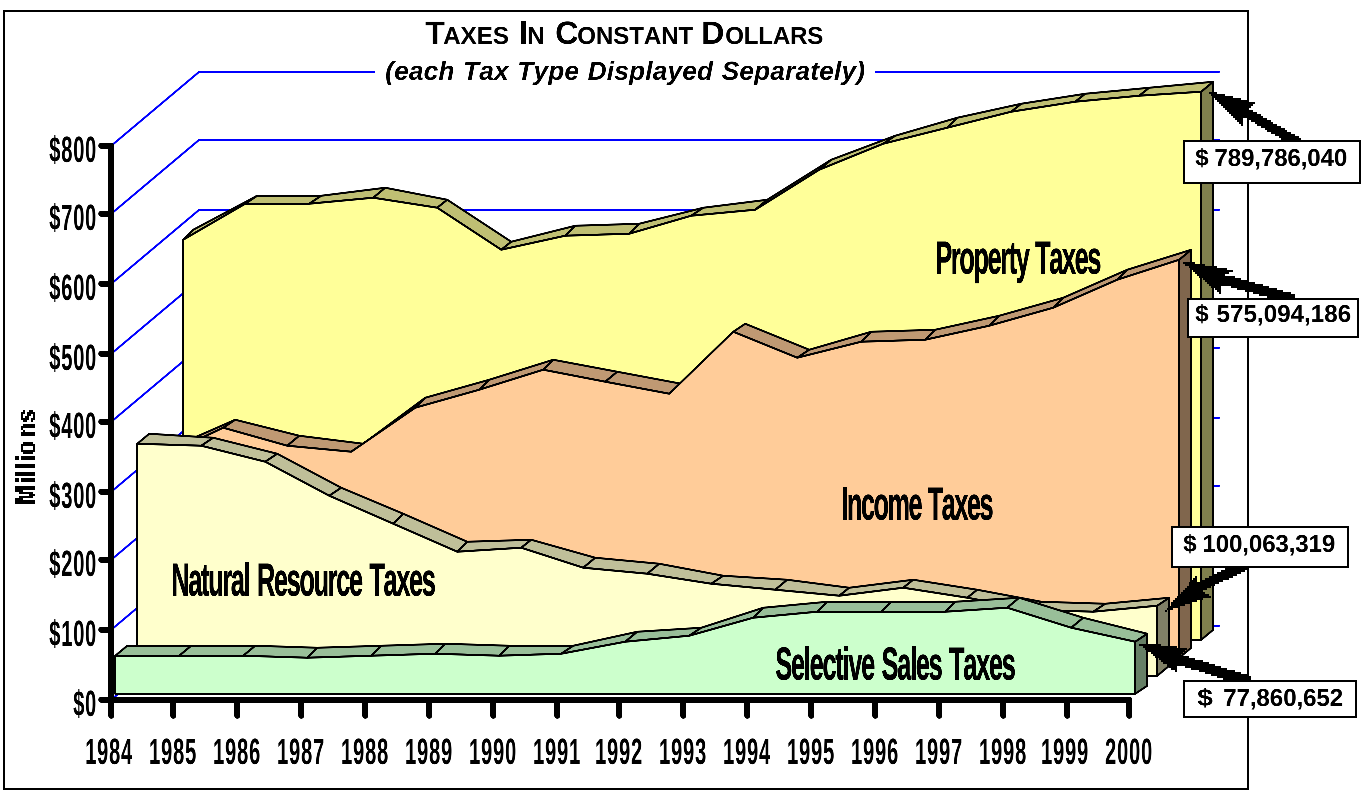
The first two charts show the change in taxes over time in *actual* dollars. These dollars are NOT adjusted for any effects due to inflation. The first chart shows growth in total taxes; the second chart shows how each component of total tax dollars has changed over time.



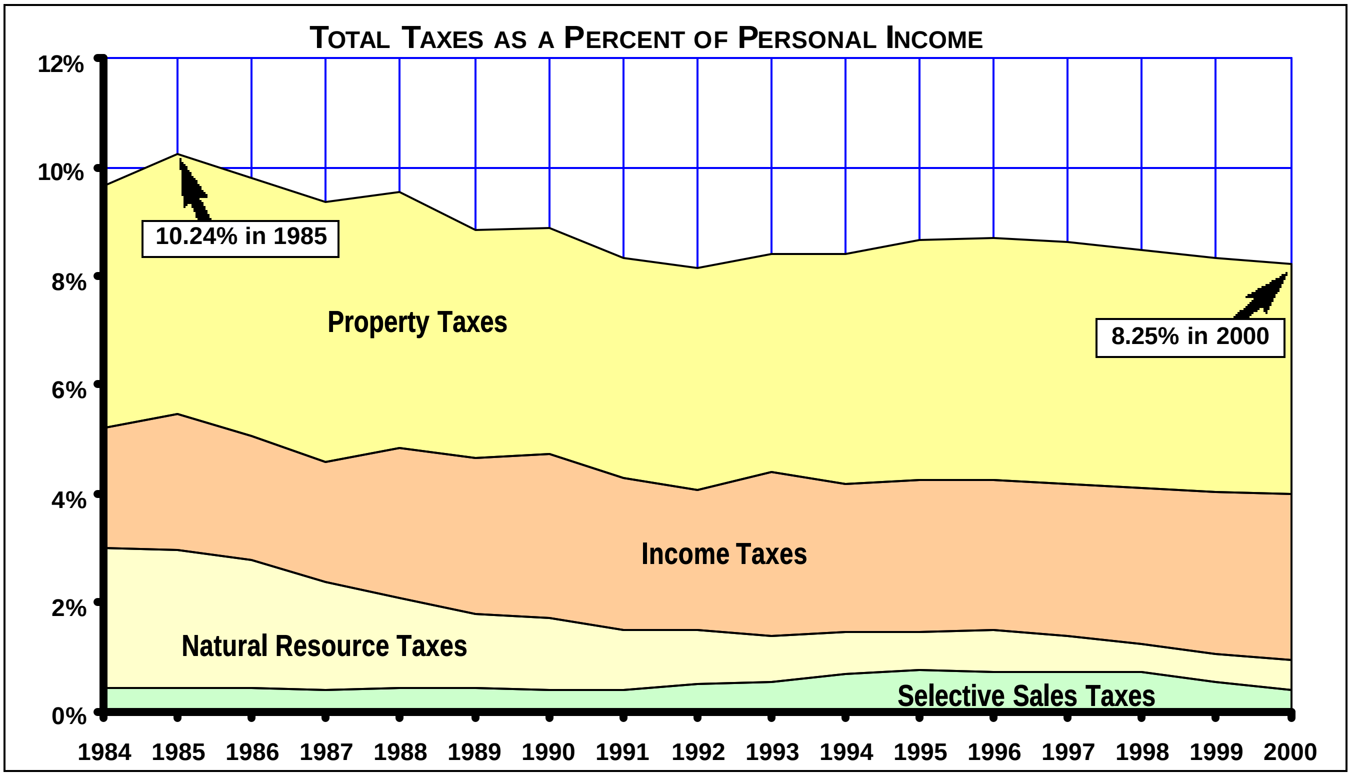



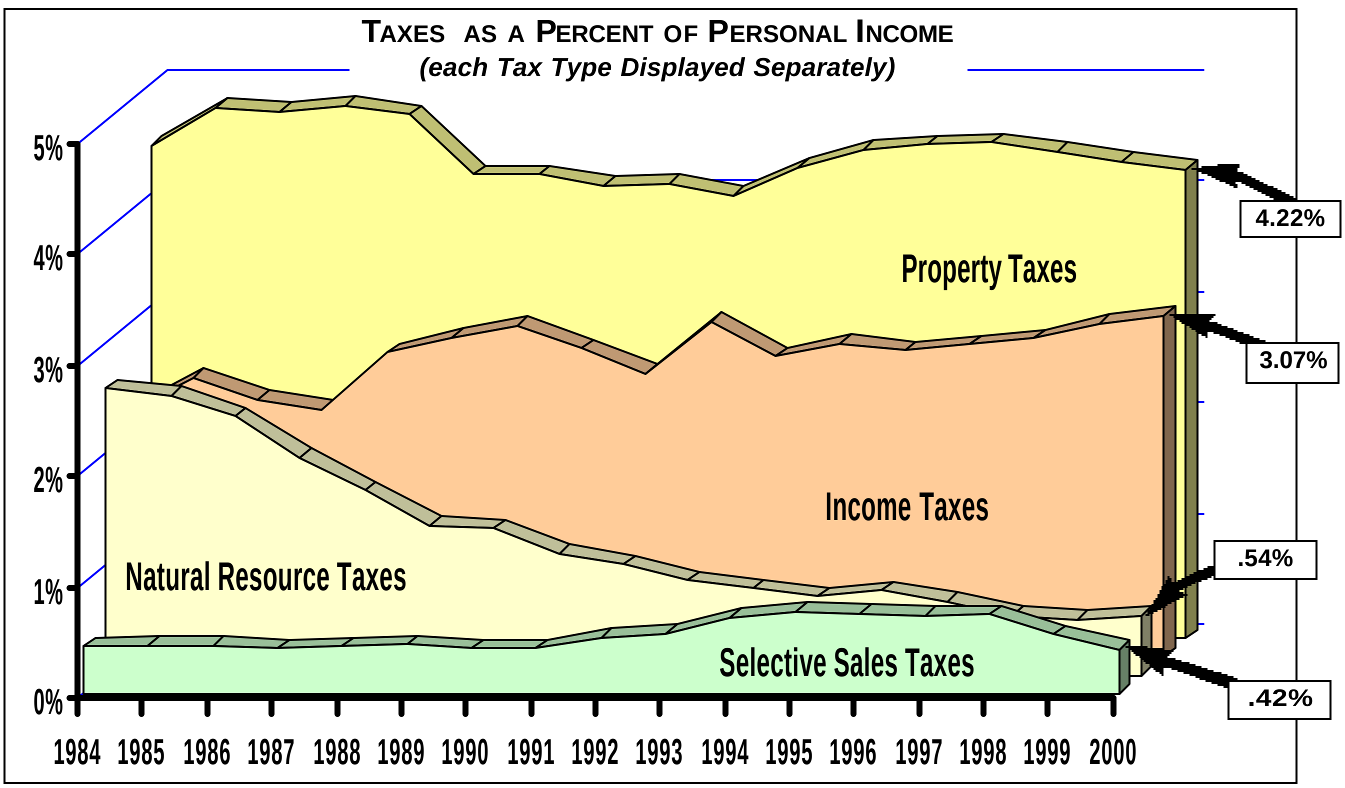
The next two charts show the change in taxes over time in constant 1996 dollars. These dollars, often referred to as "real" dollars, have been adjusted to remove the effects of inflation. The charts show the change in each component of the tax structure.



The final two charts show actual taxes as a percent of Montana total personal income (TPI). The chart can be viewed as a general reflection of the share of total economic activity consumed by taxes in each year. Since 1984, total taxes as a percent of personal income have been as high as 10.24% in 1985, and as low as 8.25% in 2000.



## OVERVIEW OF INDIVIDUAL INCOME TAX

Montana's Individual Income Tax was enacted in 1933 and continues to this day to be the largest source of state tax revenue. The state's income tax is viewed as a "progressive" tax system because of the distribution of tax burden and because income is taxed according to a graduated rate structure with rates ranging from 2% to 11% of taxable income.

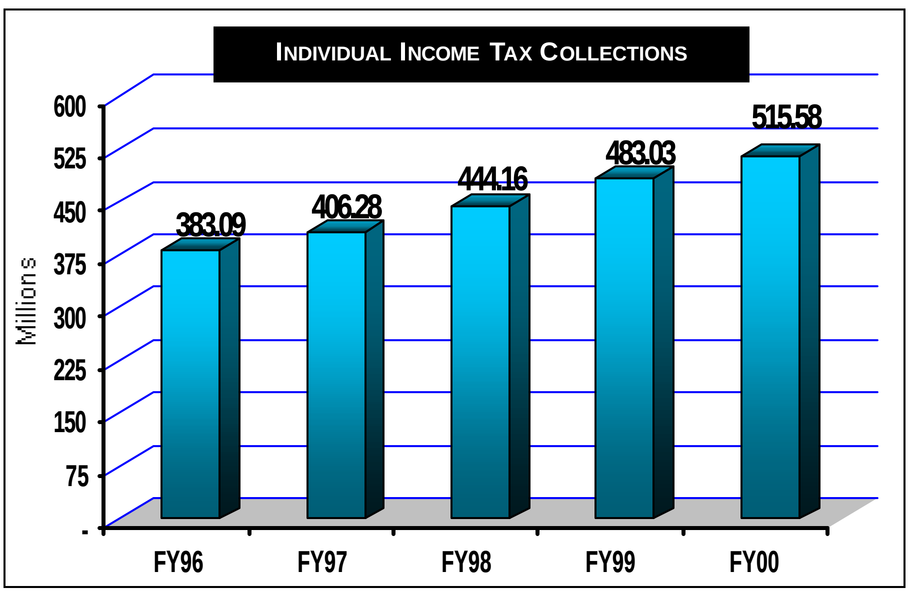
Probably the most significant feature of Montana's income tax is the substantial reliance on the federal tax code. Often described as a "tie to federal" alignment, this reliance allows the state to establish the essential elements of this tax system by direct reference to federal definitions of income and deductions, and federal reporting procedures and protocol. This reliance is common among the 43 other states imposing individual income taxes. Most importantly, this approach allows both the state and its taxpayers to realize significant operating efficiencies. Without this parallel structure, Montanans would face increased complexity and substantially higher compliance costs.

The income tax statutes do, however, reflect Montana-specific tax policy as determined by previous legislative assemblies. These policy directives are found in the areas of additions and reductions to federal adjusted gross income, unique itemized deductions, and tax credits. Details relating to these unique features are presented in the following pages.

Income tax revenues are collected primarily through employer withholding, periodic estimated tax payments, and payments made when the return is filed. Income tax revenues are distributed 100% to the general fund.

**Income Tax Collections**

| FY1996 | FY1997 | FY1998 | FY1999 | FY2000 |
|---|---|---|---|---|
| $ 383,091,612 | $ 406,275,740 | $ 444,160,729 | $ 483,031,569 | $ 515,578,629 |



## CALCULATION OF INDIVIDUAL INCOME TAX

### TOTAL INCOME

Total income includes salaries and wages, interest and dividends, state refunds, alimony, net business income, capital gain income, pension income, rents and royalties, net farm income, unemployment compensation, social security benefits and any other miscellaneous income.

*Less Adjustments To Income:*
- Student Loan Interest
- IRA/Keogh Deductions
- Self-Employment Taxes (50%)
- Self-Employment Insurance Deductions
- Alimony Paid
- Moving Expenses

**EQUALS: FEDERAL ADJUSTED GROSS INCOME (FAGI)**

Plus: *Additions* and Less *Subtractions* to arrive at Montana Adjusted Gross Income:

***Additions***
- Non-Montana Bond Interest Income
- Federal Tax Refunds
- Other Additions

***Subtractions***
- 40% Capital Gain Exclusion
- Elderly Interest Exclusion
- U.S. Savings Bond Interest Exclusion
- State Tax Refunds Included in FAGI
- Exempt Pension and Annuity Income
- Unemployment Benefits
- Tip Income
- Medical Savings Account
- First Time Homebuyers Savings Account
- Family Education Savings Account
- Other Reductions

**Equals: Montana Adjusted Gross Income**

*Less Itemized Deductions or Standard Deduction*
*Less Personal Exemptions*

**Equals: Montana Taxable Income**

Times Tax Table Rate

**EQUALS: TAX BEFORE CREDITS**

Less Credits:

Out-of-State credit, Planned Gift credit, Rural Physician credit, Contractors Gross Receipts credit, Geothermal Energy Systems credit, Recycling credit, Energy Conservation credit, Capital Company credit, College Contribution credit, Dependent Care credit, Investment credit, Elderly Care credit, Wind-Powered Generation Equipment credit, Alternative Fuel credit, Health Insurance for uninsured Montanans credit, Infrastructure Users Fee credit, Preservation of Historical Buildings credit, Mineral Exploration credit, Increased Research credit, and Elderly Homeowners credit

**EQUALS: TAX AFTER CREDITS**

## RECENT LEGISLATIVE CHANGES

### THE 1999 LEGISLATURE ENACTED TWO NEW TAX CREDITS

**Qualified Research Tax Credit**

HB638 provided for a nonrefundable tax credit for increases in qualified research expenses that are technological in nature and intended to be used in the creation of a new/improved business component. Retroactive to tax year 1999, the credit is determined in accordance with applicable federal statutes, and is equal to one-fourth the amount allowable for federal tax purposes.

**Mineral Exploration Incentive Credit**

SB265, the "Montana Mining and Exploration Development Act," provided for a nonrefundable credit for certified expenditures of specified mining exploration activities. To qualify, taxpayers must follow a rigorous certification process. The credit cannot exceed 50% of the taxpayer's tax liability. In addition, the bill provides a documented expense deduction against individual income taxes for the donation of mineral exploration information (to the Montana Tech Foundation).

### IN ADDITION, THE 1999 LEGISLATURE ALSO:

**Revised Elderly Homeowner/Renter Credit**

SB424 phased out the income cap for eligibility for the elderly homeowner/renter credit over the range of $35,000 to $45,000 in gross household income; and clarified that income includes the proceeds from the sale or transfer of a capital asset, net of the property's adjusted basis, any payment of indebtedness encumbering the property, and the costs of the sale.

**Revised Check-Off Program**

SB380 revised the income tax check-off system by reducing the threshold amount that triggers termination of three check-offs from $20,000 to $10,000. These check-offs include the Child Abuse Prevention Program, the Agriculture in Montana Schools program and the Non-Game Wildlife Program. Before the passage of SB380, both the Child Abuse Prevention and Agriculture in Montana Schools check-off programs would have been eliminated in tax year 1999. Under SB380, neither program is terminated.

**Provided Potential Income Tax Relief**

SB426 provided that all assessment payments made on June 15 of each year by foreign capital depositories must be redistributed to taxpayers in the form of individual income tax relief. The amount of relief that is provided to each income tax payer is equal to the total assessment payments received divided by the number of income tax filers in the previous tax year.

## ELECTRONIC TAX REPORTING FOR EMPLOYERS AND INDIVIDUALS

In this era of "reduced costs/improved service," the Montana Department of Revenue increasingly relies on electronic commerce for financial reporting. Before we can talk about electronic commerce, we need to understand what it is and how it works.

**A few terms are helpful...**

**Electronic Commerce (EC)**
The realm of technology available to communicate electronically in the business setting.

**Electronic Data Interchange (EDI)**
The electronic transmission of information from one computer to or through multiple computers to another computer.

**Electronic Funds Transfer (EFT)**
An electronic remittance, including the transmission of information to ensure the debit/credit of appropriate accounts, which results in payment of a bill, tax, etc.

**Electronic Tax Reporting for Employers (ETR)**
The combination of EDI and EFT specific to the filing of employer tax returns.

**Electronic Filing for Individuals (E-file)**
Electronic data interchange specific to the filing of individual income tax returns.

**Automated Clearing House (ACH)**
Many electronic fund transfer transactions are processed and transmitted via an automated clearinghouse which provides enabling services such as paperwork processing, error tracking, etc. The National Association of Clearing House Administrators (NACHA) has developed transmission standards for users.

## CURRENT DEPARTMENT ELECTRONIC COMMERCE PROJECTS

### ELECTRONIC FILING FOR INDIVIDUALS (E-FILE)

The Montana Department of Revenue can accept electronically filed income tax returns from resident, part-year, and nonresident taxpayers in a joint project with the Internal Revenue Service. Taxpayers who file electronically with the IRS can have the information sent to the department as well. The information is received by the Department electronically, reformatted, and input directly into the income tax system. Direct deposit is available to those taxpayers due a refund.

### TELEFILE FOR INDIVIDUAL INCOME TAX RETURNS

Individual income tax returns can be filed over the telephone. Taxpayers must be invited to participate in this program. Return information is entered using the telephone keypad. The department can receive these filings 24 hours a day, seven days a week. The telefile computer does all the calculations and provides the taxpayer with a confirmation number. As with e-file, direct deposit is also available. Since January 1, 1997, the department has processed 75,216 returns with telefile (32,855 in FY97, 21,698 in FY98, 20,663 in FY99).

**Electronic Tax Reporting for Employers (ETR)**

Electronic Tax Reporting consists of both the electronic filing of a return (EDI) and the electronic payment of the tax (EFT). ETR is accomplished through either an ACH credit or ACH debit. An ACH credit occurs when the taxpayer contacts his/her own bank to initiate a funds transfer. Included with the money is an information record which acts as the remittance advice. Under the ACH debit option, the taxpayer sends the electronic file directly to the department. The file consists of the remittance information and authorizes the department to withdraw a specific amount of money from the taxpayer's bank account. These banking transactions are easily automated, requiring very little human intervention.

**Benefits of Electronic Commerce**

The benefits to the department are tremendous. These programs lessen the strain on current operations. Labor intensive, error prone manual processes are reduced. Electronic filing eliminates the need for opening envelopes and extracting information, manual sorting, data entry, error correction, and document storage and retrieval. In addition, electronic payment eliminates the need for a cashiering function.

Taxpayers benefit through the ease in filing and receiving their refunds in a timely manner. The programs have an acknowledgement process that is not included in paper return processing. The taxpayer receives notification (and peace of mind) that the department has accepted the return. On a larger scale, everyone benefits when government operates more efficiently and more cost effectively.

The graphics on the following pages represent examples of these interactive systems.

### ELECTRONIC TAX REPORTING FOR EMPLOYERS

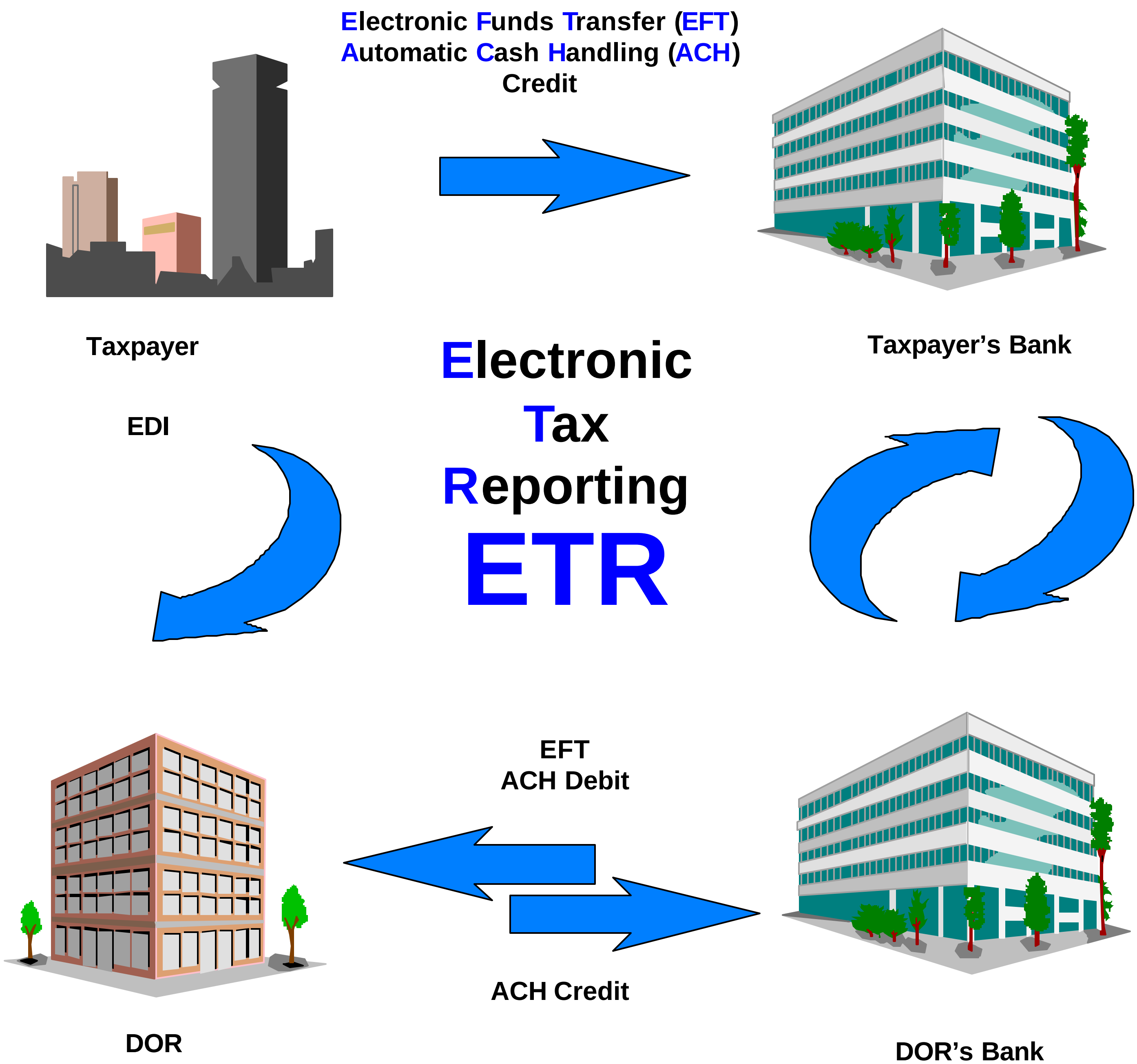
The Montana Department of Revenue showcased a new filing method in 1998. Employers filing state income tax withholding and Unemployment Insurance can file and pay electronically on a combined form to a single department.

Filings transpire via computer modem. Taxpayers simply dial the department and transmit the necessary information. While still on-line, they receive notice of acceptance, or a warning that an error exists. An error code indicates where the problem is and what is wrong. The entire process takes less than a minute.

Payment options for electronic tax reporting include both ACH credit and ACH debit. This is a significant advancement for the department. Until now, the only electronic payment allowed has been federal wire transfers.

Under the ACH *debit* method, the taxpayer authorizes the Department of Revenue to initiate the funds transfer. An additional line in the electronic filing contains the taxpayer's bank account numbers and the amount of withdrawal. The department collects this information in a file which US Bank will access to initiate the transfer.

Under the ACH *credit* method, the taxpayer must contact his/her bank and initiate the transfer. US Bank accepts ACH credits which follow the guidelines set forth by the National Automated Clearing House Association, in a format commonly referred to as CCD+.


Electronic Funds Transfer (EFT)
Automatic Cash Handling (ACH)
Credit
Taxpayer
Taxpayer's Bank
EDI
Electronic
Tax
Reporting
ETR
EFT
ACH Debit
ACH Credit
DOR
DOR's Bank

### MONTANA / IRS ELECTRONIC FILING FOR INDIVIDUALS

For the past six years, the Montana Department of Revenue has accepted electronically filed income tax returns from resident taxpayers in conjunction with the Internal Revenue Service. The “E-file” system has been widely used, processing 156,000 returns since its start in 1995.

Electronic filing is the receiving, processing, archiving and retrieving of tax returns using electronic records.

A tax return is prepared on software that transmits the return through phone lines directly to the Internal Revenue Service in Ogden, Utah. Then, the Department of Revenue retrieves the tax return information from the IRS and reformats it for their income tax mainframe computer system.

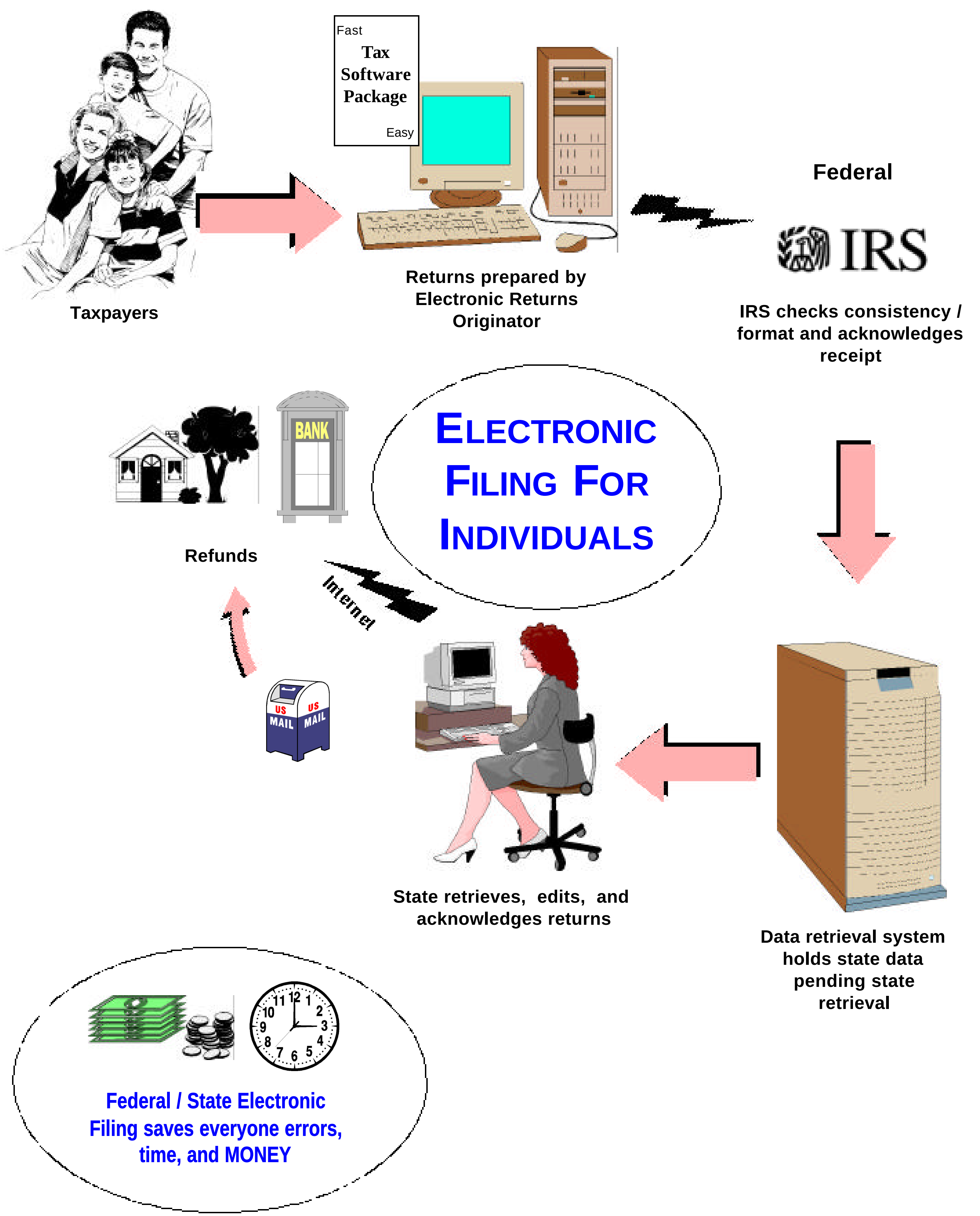
Electronic filing replaces the following traditional steps which are expensive, labor-intensive, and error prone because of the numerous manual processes and human intervention involved:

* Receiving returns, opening envelopes, extracting, and counting
* Sorting by type of return, numbering and batching
* Manual coding and editing for computer processing
* Data entry
* Correcting certain errors (Error Resolution System)
* Operational controls and tracking
* Cost of mailing refunds

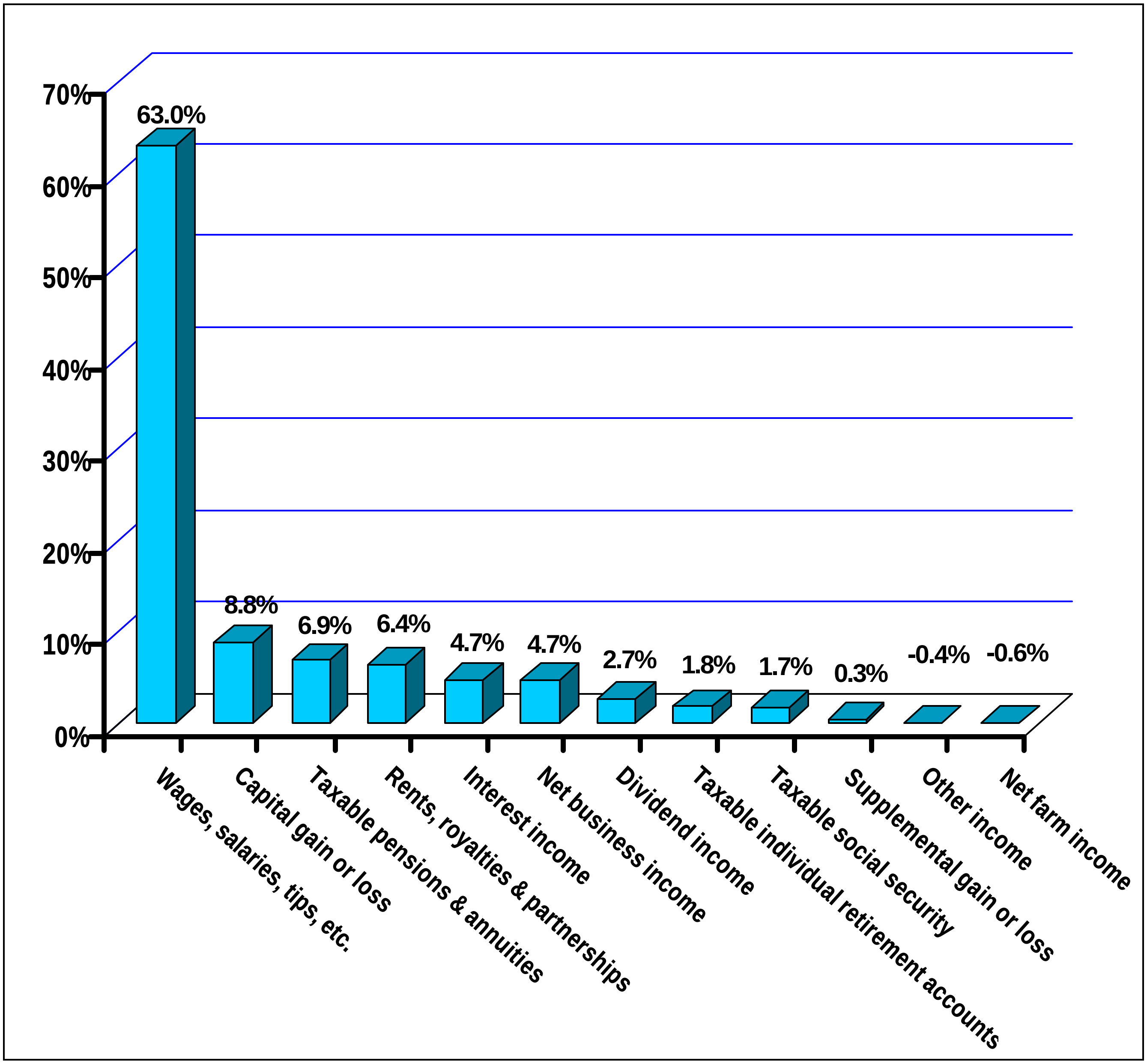
Electronic filing (E-file) automates the manual processes listed above. E-file also has an acknowledgment process that's not included in manual return processing which informs the taxpayer that the return has been received by the Department of Revenue (not lost in the mail) and is processable.

Because of the low error rate and the ability to view and correct the return on a screen display, a minimal amount of paper is needed. The entire e-file process is paperless when the taxpayer elects to receive a direct deposit refund.

For updated information please see our web site at: http://state.mt.us/revenue


Fast
Tax
Software
Package
Easy
Taxpayers
Returns prepared by
Electronic Returns
Originator
Federal
IRS
IRS checks consistency /
format and acknowledges
receipt
ELECTRONIC
FILING FOR
INDIVIDUALS
BANK
Refunds
Internet
US MAIL
US MAIL
State retrieves, edits, and
acknowledges returns
Data retrieval system
holds state data
pending state
retrieval
Federal / State Electronic
Filing saves everyone errors,
time, and MONEY

## COMPONENTS OF REPORTED INCOME
## (FULL-YEAR RESIDENTS - 1999 RETURNS)



## TOTAL INCOME FROM ALL SOURCES (FEDERAL) AND MONTANA TAXABLE INCOME
## FULL-YEAR RESIDENTS - 1999 TAX YEAR

| Item of Information | Total Reported | Number of Returns | Average Per Return |
|---|---|---|---|
| **Total Income from all sources (Federal)** | **$ 12,737,475,699** | **467,700** | **$ 27,234** |
| IRA, Keogh, moving exp., self-emp. tax/health insurance, etc. | 194,438,545 | 97,072 | 2,003 |
| TOTAL FEDERAL ADJUSTMENTS | 194,438,545 | 97,072 | 2,003 |
| **Federal Adjusted Gross Income** | **$ 12,543,037,154** | **467,654** | **$ 26,821** |
| **Montana Additions** | | | |
| Interest on non-Montana state/local gov't bonds | $ 43,585,248 | 16,937 | $ 2,573 |
| Federal income tax refunds | 178,192,772 | 112,505 | 1,584 |
| Other additions, transfer allocations | 166,514,861 | 22,493 | 7,403 |
| TOTAL ADDITIONS | 388,292,881 | 138,405 | 2,805 |
| **Federal Adjusted Gross Income Plus Additions** | **$ 12,931,330,035** | **467,775** | **$ 27,644** |
| **Montana Reductions** | | | |
| Capital gains exclusion for pre-1987 installment sales | $ 3,538,351 | 974 | $ 3,633 |
| Interest exclusion for elderly | 46,033,716 | 61,700 | 746 |
| Interest exclusion for U.S. savings bonds | 85,520,376 | 40,268 | 2,124 |
| Exempt retirement income | 155,172,531 | 42,680 | 3,636 |
| Unemployment Compensation | 48,969,054 | 24,052 | 2,036 |
| Medical Savings Account | 5,327,000 | 2,566 | 2,076 |
| Family Education Savings Account | 1,814,909 | 717 | 2,531 |
| Other reductions, transfer allocations, recycling of materials | 416,855,851 | 123,881 | 3,365 |
| TOTAL REDUCTIONS | 764,023,616 | 206,447 | 3,701 |
| **Montana Adjusted Gross Income** | **$ 12,167,306,419** | **465,118** | **$ 23,699** |
| **LESS:** Standard Deductions | $ 462,612,419 | 189,557 | $ 2,440 |
| Allowable Itemized Deductions | $ 3,249,442,149 | 269,269 | $ 12,068 |
| Exemption Value ($1,610 per exemption claimed) | $ 1,370,824,840 | 468,417 | $ 2,927 |
| **Montana Taxable Income** | **$ 7,658,519,166** | **397,339** | **$ 19,275** |

***Source:*** *Standard Deductions line item data comes from the Director's Office Reports, 1999: Montana Income Tax Analysis; all other data is from TPR IIT comparison of Return Data, full-year residents spreadsheets*

## 1999
## MONTANA INCOME TAX ANALYSIS
## SUMMARY OF
## ITEMIZED DEDUCTIONS FOR FULL-YEAR RESIDENTS

| Item | Total Amount | # of Returns | Average per Return |
|---|---|---|---|
| Medical Insurance Premium | $ 183,340,843 | 104,296 | $ 1,758 |
| Medical and Dental | 168,701,852 | 56,239 | 3,000 |
| Long Term Care Insurance Premium | 11,943,152 | 4,572 | 2,612 |
| Subtotal | $ 363,985,847 | | |
| **Federal Tax Deduction** | | | |
| Paid by Withholding or Estimated Tax | $ 1,360,127,314 | 259,827 | $ 5,235 |
| Balance of Income Tax from Previous Year | 171,622,261 | 63,716 | 2,694 |
| Additional Taxes Paid from Other Years | 13,083,428 | 4,475 | 2,924 |
| Subtotal | $ 1,544,833,003 | | |
| **Property and Other Taxes** | | | |
| Real Estate, Personal Property | $ 239,161,553 | 181,049 | $ 1,321 |
| Balance of Income Tax from Previous Year | 47,059,216 | 125,573 | 375 |
| Subtotal | 286,220,769 | | |
| **Other Deductions** | | | |
| Mortgage Interest | $ 617,656,281 | 133,316 | $ 4,633 |
| Investment Interest | 33,564,150 | 9,986 | 3,361 |
| Contributions | 275,164,610 | 168,588 | 1,632 |
| Child & Dependent Care | 1,618,924 | 1,221 | 1,326 |
| Casualty Losses | 3,058,367 | 436 | 7,015 |
| Business & Other Expenses | 115,728,674 | 47,620 | 2,430 |
| Miscellaneous Expenses | 7,611,524 | 2,671 | 2,850 |
| Subtotal | $ 1,054,402,530 | | |
| **TOTAL** | **$ 3,249,442,149** | | |

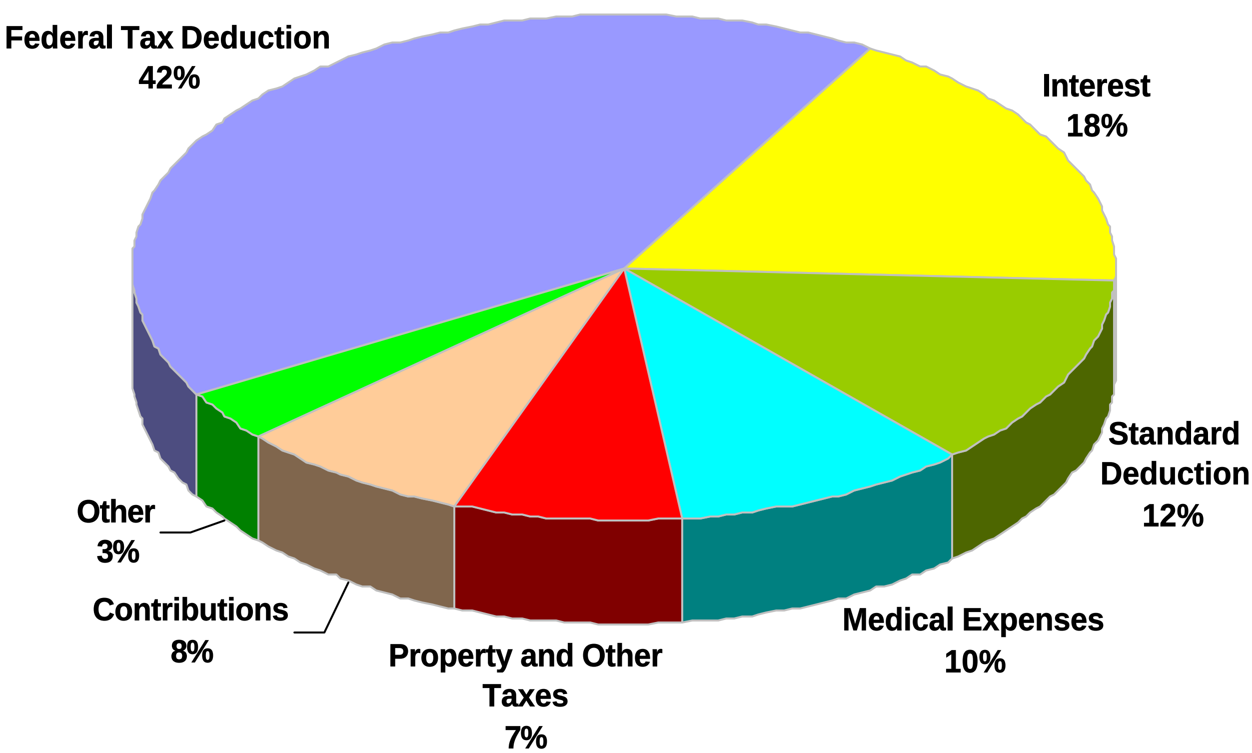
***Note:*** *A return filed may have federal tax deductions on more than one line. Thus, one return can be counted twice when all lines are totaled.*

## DEDUCTIONS CLAIMED ON 1999 RETURNS
### (FULL-YEAR RESIDENTS - BY PERCENT OF TOTAL)

Montana is tied by law to the same itemized deductions that are allowed under the federal law with one exception. Montana's one exception to the federal law is that state income tax is not allowed as an itemized deduction.

In addition, Montana law allows certain itemized deductions that are not allowed at the federal level. The additional itemized deductions allowed include: federal income taxes paid, long-term care insurance premiums, health insurance premiums, and child/dependent care expenses.

**ITEMIZED DEDUCTION PERCENTAGES**



## Tax Year 1999
### MONTANA INCOME TAX ANALYSIS
### ALL TAXPAYERS
### COMPARISON OF ITEMIZED VS. STANDARD FILERS

| Item | Standard | Itemized | Totals |
|---|---|---|---|
| Number of Returns | 211,643 | 305,015 | 516,658 |
| Percent | 41% | 59% | |
| Total Deductions | $ 524,265,505 | $ 6,419,442,462 | $ 6,943,707,967 |
| Average Deduction | $ 2,477 | $ 21,046 | |
| Taxable Income | $ 2,787,986,842 | $ 18,049,858,580 | $20,837,845,422 |
| Average Taxable Income | $ 13,173 | $ 59,177 | |
| Deduction as a Percentage of Taxable Income | 19% | 36% | 33% |

# MONTANA INCOME TAX ANALYSIS
## SUMMARY OF INCOME TAX CREDITS
## FULL-YEAR RESIDENTS - TAX YEAR 1999

| Item | Total Amount | Number of Returns | Average Per Return |
|---|---|---|---|
| Rural Physician Credit | $ 257,526 | 65 | $ 3,962 |
| College Contribution Credit | $ 153,277 | 1,843 | $ 83 |
| Charitable Endowment Credit | $ 5,547,290 | 1,266 | $ 4,382 |
| Elderly Care Credit | $ 28,611 | 41 | $ 698 |
| Other State/Foreign Credits | $ 101,59,095 | 10,124 | $ 1,003 |
| Contractors Gross Receipts Credit | $ 620,375 | 284 | $ 2,184 |
| Investment Credit | $ 5,635 | 39 | $ 144 |
| Geothermal Energy System Credit | $ 41,616 | 217 | $ 192 |
| Energy Conservation Credit | $ 132,907 | 1,777 | $ 75 |
| Wind-Powered Generation Credit | $ 5,187 | 80 | $ 65 |
| Recycling Credit | $ 95,489 | 49 | $ 1,949 |
| Alternative Fuels Credit | $ 3,375 | 1 | $ 3,375 |
| Capital Company Credit | $ 183,441 | 7 | $26,206 |
| Dependent Care Assistance Credit | $ 3,697 | 6 | $ 616 |
| Employee Health Insurance Credit | $ 71,773 | 101 | $ 711 |
| Infrastructure Users Fee Credit | $ 27 | 1 | $ 27 |
| Historic Building Preservation Credit | $ 7,788 | 9 | $ 865 |
| Increased Research Activity Credit | $ 3,056 | 2 | $ 1,528 |
| Mineral Exploration Credit | $ 15 | 1 | $ 15 |
| **Elderly Homeowner/Renter Credit** | | | |
| Filed with Tax Returns | $ 5,188,461 | 12,316 | $ 421 |
| Filed Separately | $ 3,687,299 | 9,140 | $ 403 |

## MONTANA INCOME TAX ANALYSIS
### EFFECTIVE TAX RATE BY DECILE GROUP
### FULL-YEAR RESIDENT TAXPAYERS - TAX YEAR 1999

| Decile Group* | Montana Adjusted Income Range | Gross Income | Total Tax Liability | Returns In Bracket | Percent of Total | Average Tax Per Taxpayer | Effective Tax Rate** |
|---|---|---|---|---|---|---|---|
| 1 | $ 0 - $ 3,235 | ($ 184,957,771) | $ 50,292 | 46,842 | 10% | $ 1.07 | NA |
| 2 | $ 3,236 - $ 6,471 | 227,306,825 | 1,425,601 | 46,842 | 10% | 30.43 | 0.62% |
| 3 | $ 6,472 - $ 9,905 | 382,677,305 | 4,367,745 | 46,842 | 10% | 93.24 | 1.14% |
| 4 | $ 9,906 -$ 13,610 | 549,705,517 | 8,705,583 | 46,842 | 10% | 185.85 | 1.58% |
| 5 | $ 13,611 -$ 17,683 | 730,775,477 | 14,812,006 | 46,842 | 10% | 316.21 | 2.02% |
| 6 | $ 17,684 -$ 22,465 | 935,699,368 | 23,037,473 | 46,842 | 10% | 491.81 | 2.46% |
| 7 | $ 22,466 -$ 28,616 | 1,188,921,847 | 34,243,799 | 46,842 | 10% | 731.05 | 2.88% |
| 8 | $ 28,617 -$ 36,751 | 1,521,802,879 | 49,733,009 | 46,842 | 10% | 1,061.72 | 3.26% |
| 9 | $ 36,752 -$ 50,508 | 1,999,984,176 | 73,679,230 | 46,842 | 10% | 1,572.93 | 3.68% |
| 10 | $ 50,509 and over | 4,815,390,796 | 268,522,873 | 46,842 | 10% | 5,732.52 | 5.58% |
| **Total** | | **$ 12,167,306,419** | **$ 478,577,611** | **468,420** | **100%** | **$ 1,021.68** | **3.93%** |

*Each decile group includes one-tenth of all returns filed. The first group includes returns with the very lowest incomes, while the last group includes returns having the highest incomes.
**Effective tax rate is defined as tax liability divided by gross income. It measures the percent of gross income paid in income tax.

### WITHHOLDING TAX

The majority of income tax revenue is collected through tax withholding. This money is withheld from employees' wages and remitted to the state by employers. The amount of money withheld from an employee's wage is determined by Montana's withholding tax rates, the number of allowances and the length of the payroll period.

The withholding tax rates are based on yearly forecasts of a person's wages to determine the amount of income tax the employee will owe and the employer should withhold. There are different withholding tax rates depending on how often a person is paid. The other factor that contributes to the amount of tax withheld is the number of dependents the employee claims. This factor is controlled by the employee unless the state believes it is unreasonable.

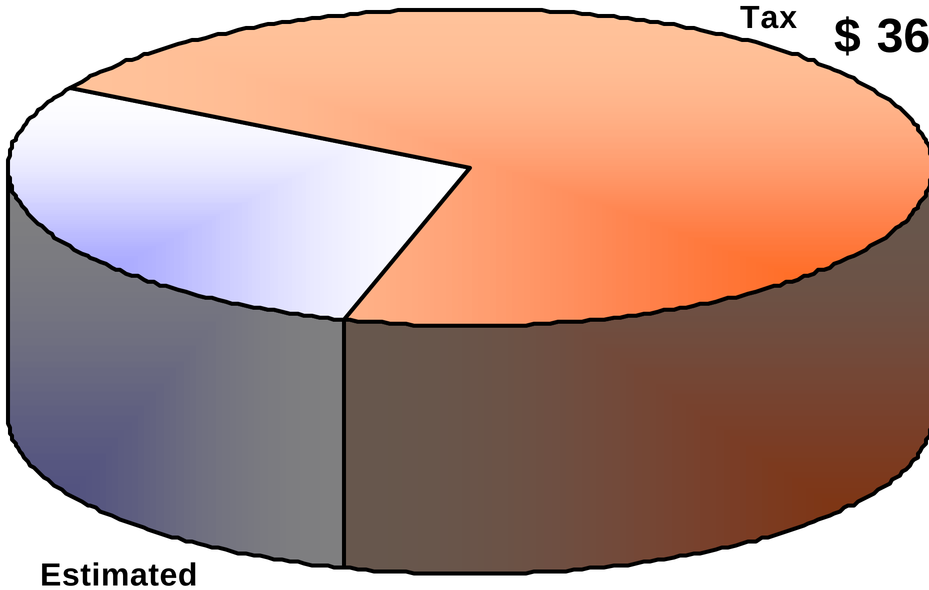
Withholding tables were last adjusted in 1994.

**Percentage of Refund Returns and Average Refund**

| Calendar Year | Total Returns Processed | Number of Refund Returns | Percentage Refund Returns | Average Refund |
|---|---|---|---|---|
| 1994 | 408,843 | 225,801 | 55% | $ 334.52 |
| 1995 | 421,180 | 246,505 | 58% | $ 338.23 |
| 1996 | 433,105 | 261,034 | 60% | $ 341.24 |
| 1997 | 437,443 | 268,616 | 61% | $ 361.37 |
| 1998 | 422,565 | 257,791 | 61% | $ 597.25 |
| 1999 | 433,483 | 279,377 | 64% | $ 500.75 |

## INCOME TAX COLLECTIONS - FY2000

## TOTAL COLLECTIONS = $ 516,261,911



## COMPARISONS OF INDIVIDUAL INCOME TAX BURDEN

**Tax per $1,000 of Personal Income (PI)**
**All States - Tax Year 1999**

| Rank | State | Tax Per $1,000 PI |
|---|---|---|
| 1 | Oregon | 41.40 |
| 2 | Massachusetts | 36.61 |
| 3 | Minnesota | 36.08 |
| 4 | Wisconsin | 35.90 |
| 5 | New York | 33.37 |
| 6 | Delaware | 33.24 |
| 7 | North Carolina | 33.11 |
| 8 | Maine | 33.09 |
| 9 | Hawaii | 32.74 |
| 10 | California | 31.00 |
| 11 | Virginia | 29.74 |
| 12 | Idaho | 29.63 |
| 13 | Utah | 29.46 |
| 14 | Connecticut | 27.99 |
| 15 | Kentucky | 27.51 |
| 16 | Oklahoma | 26.86 |
| 17 | Georgia | 26.66 |
| 18 | Michigan | 26.21 |
| 19 | Rhode Island | 25.27 |
| 20 | Arkansas | 25.15 |
| 21 | Missouri | 25.15 |
| 22 | Vermont | 24.95 |
| 23 | Maryland | 24.89 |
| **24** | **Montana** | **24.85** |
| 25 | West Virginia | 24.28 |
| 26 | Kansas | 23.83 |
| 27 | Indiana | 23.81 |
| 28 | Nebraska | 23.79 |
| 29 | Ohio | 23.53 |
| 30 | Iowa | 23.34 |
| 31 | Colorado | 21.94 |
| 32 | New Jersey | 21.84 |
| 33 | South Carolina | 21.71 |
| 34 | New Mexico | 21.29 |
| 35 | Illinois | 19.19 |
| 36 | Alabama | 18.99 |
| 37 | Pennsylvania | 18.68 |
| 38 | Arizona | 17.43 |
| 39 | Mississippi | 17.16 |
| 40 | Louisiana | 15.37 |
| 41 | North Dakota | 12.32 |
| 42 | New Hampshire | 1.69 |
| 43 | Tennessee | 1.11 |

*Source: State Gov't Tax Collections: 1999, Bureau of the Census*

### REGIONAL RANKING

| Rank | State | Tax Per $1,000 PI |
|---|---|---|
| 1 | Oregon | 41.40 |
| 2 | Idaho | 29.63 |
| 3 | Utah | 29.46 |
| **4** | **Montana** | **24.85** |
| 5 | North Dakota | 12.32 |

### STATES WITH NO INCOME TAX

Alaska
Florida
Nevada
South Dakota
Texas
Washington
Wyoming

# CORPORATION LICENSE TAX - OVERVIEW

## OVERVIEW OF TAX

The corporation license tax is a franchise tax levied on corporations for the privilege of doing business in Montana. The rate of the tax is 6.75% and is calculated on net income earned in Montana. Corporations making a "water's edge" election are required to pay tax at a rate of 7%. Corporations whose only activity in Montana consists of making sales, and do not own or rent real estate or tangible personal property, and whose annual gross volume of sales made in Montana does not exceed $100,000, may elect to pay a tax of 1/2 of 1% of gross sales.

There is a minimum tax of $50. However, if a corporation has no property, payroll, or sales in Montana during the tax period, it is excluded from the minimum payment. All Montana corporations must file a tax return even if they are excluded from the minimum payment.

Corporations electing to file as a subchapter S Corporation for federal income tax purposes must also file as an "S-corp" for Montana corporation license tax purposes. Montana S-corps are required to file form CLT-4S. The income of the S-corp will then flow through to the individual shareholders' personal tax return and tax would be paid at the individual level.

In computing net income, gross income is the same as for federal corporate tax purposes. Allowable deductions include all ordinary and necessary business expenses, certain losses and depreciation of assets, resource depletion allowance, interest paid on business debts, taxes paid (except all taxes measured by net income or profits), certain charitable contributions, certain energy-related investments, and net operating losses.

Corporations conducting business that is taxable both within and without the state (multistate corporations) are required to allocate income to Montana based on an equally-weighted, three-factor apportionment formula, where sales, property, and payroll are the three factors.

Banks and savings and loan associations are treated, for corporate tax purposes, similar to other corporations, except that 80% of the tax they pay is returned to the counties in which the bank or savings and loan association is located. This allocation was designed to reimburse local governments for revenue lost when the property tax on bank shares was repealed in 1979.

### Filing Dates

The corporation license tax return is due on the 15th day of the 5th month following the end of the corporation's taxable year. Corporations are entitled to an automatic 6-month extension to file their return if they so choose. Corporations which have an annual estimated tax of $5,000 or more are required to make quarterly estimated tax payments on the 15th day of the 4th, 6th, 9th and 12th months of their tax year.

### Penalties and Interest

If the tax is not paid on or before the due date of the return, there is assessed a penalty of 1.5% a month; the total penalty may not exceed 18% of the tax due. Interest will accrue on unpaid tax at an annual rate of 12%. *(MCA 15-31-545)*

### Revenue Distribution

Corporation tax revenue (other than financial institutions) is distributed 100% to the general fund. For financial institutions 80% is allocated to local governments and 20% to the general fund.

## CORPORATE TAX RETURNS
### FY 2000 Returns Filed

| | |
|---|---|
| Regular Corporations | 16,971 |
| S-Corporations | 14,238 |
| Total | 31,209 |
| Corporations paying the $50 minimum tax: | 9,788 |
| Corporations paying more than $50: | 6,330 |
| Corporations paying no tax: | 853 |
| Total Regular Corporations | 16,971 |

## CORPORATION TAX REVENUE

| Corporation Type | FY1998 | FY1999 | FY2000 |
|---|---|---|---|
| Non-Financial | $ 67,673,725 | $ 77,771,879 | $ 88,581,126 |
| Financial | 10,254,773 | 11,852,680 | 10,507,744 |
| Total Corporate Tax | $ 77,928,498 | $ 89,624,559 | $ 99,088,870 |
| Less: Financial Distributions To Counties | 8,203,818 | 9,482,144 | 8,406,195 |
| General Fund Corporation Tax | $ 69,724,680 | $ 80,142,415 | $ 90,682,675 |

# Corporation License Tax - State Comparisons

## Comparison Of Corporate Tax Rate With Other States

There are 43 states that have a similar tax. The schedule below shows the rates vary from a low of 4% to a high of 12%. Montana ranks 29th with a rate of 6.75%.

### States Sequenced According to Maximum Corporate Tax Rates

| Rank | State | Rate | Rank | State | Rate |
|---|---|---|---|---|---|
| 1 | Iowa* | 12.00% | **29** | **Montana** | **6.75%** |
| 2 | North Dakota* | 10.50% | 30 | Oregon | 6.60% |
| 3 | Pennsylvania | 9.99% | 31 | Arkansas* | 6.50% |
| 4 | Minnesota | 9.80% | 32 | Hawaii* | 6.40% |
| 5 | Vermont* | 9.75% | 33 | Missouri | 6.25% |
| 6 | Massachusetts | 9.50% | 34 | Georgia | 6.00% |
| 7 | Alaska* | 9.40% | 35 | Oklahoma | 6.00% |
| 8 | New Jersey | 9.00% | 36 | Tennessee | 6.00% |
| 9 | Rhode Island | 9.00% | 37 | Virginia | 6.00% |
| 10 | West Virginia | 9.00% | 38 | Florida | 5.50% |
| 11 | Maine* | 8.93% | 39 | Alabama | 5.00% |
| 12 | California | 8.84% | 40 | Mississippi* | 5.00% |
| 13 | Delaware | 8.70% | 41 | South Carolina | 5.00% |
| 14 | New York | 8.50% | 42 | Utah | 5.00% |
| 15 | Ohio* | 8.50% | 43 | Colorado | 4.75% |
| 16 | Kentucky* | 8.25% | 44 | Kansas* | 4.00% |
| 17 | Arizona | 8.00% | | | |
| 18 | Idaho | 8.00% | | | |
| 19 | Louisiana* | 8.00% | | | |
| 20 | New Hampshire | 7.00% | | | |
| 21 | Indiana | 7.90% | | | |
| 22 | Wisconsin | 7.90% | | | |
| 23 | Nebraska* | 7.81% | | | |
| 24 | New Mexico* | 7.60% | | | |
| 25 | Connecticut | 7.50% | | | |
| 26 | Illinois | 7.30% | | | |
| 27 | Maryland | 7.00% | | | |
| 28 | North Carolina | 6.90% | | | |

**No Corporate Income Tax**

Michigan**
Nevada
South Dakota
Texas**
Washington
Wyoming**

***Source:*** *Federation of Tax Administrators Tax Rates as of January 1, 2000.*
*States with a graduated rate corporation income tax. Highest rate is shown.
**States have an alternative form of corporation tax not necessarily based on income.

## MONTANA TAXATION OF NATURAL RESOURCES

Historically, Montana has relied on its store of natural resource wealth as a primary source of tax revenue. So significant is this source of revenue, that it has been likened to the "third leg" of Montana's tax stool, supplementing the individual income and property tax as the three major sources of revenue in the state. However, it should be noted that state revenues from natural resource taxes in FY2000 were 38% of FY1985 collections.

This section discusses the characteristics of each of the different natural resource taxes in Montana. Generally, natural resource taxes may be categorized as either severance/license taxes, or some form of ad valorem (property) taxes. Details of the following taxes are provided in subsequent subsections. Information provided includes tax rates, filing requirements, disposition of the tax, production tax incentives, and recent revenue collections.

| STATE SEVERANCE AND LICENSE TAXES | Fiscal 2000 Collections |
|---|---|
| Coal Severance Tax | $ 35,469,791 |
| Oil & Gas Production Tax (State Share) | 14,817,289 |
| Metalliferous Mines License Tax | 4,660,398 |
| Resource Indemnity and Groundwater Assessment Tax (RIGWAT) | 1,323,101 |
| **Total State Collections** | **$ 56,270,579** |

| LOCAL GOVERNMENT AD VALOREM AND SEVERANCE TAXES | |
|---|---|
| Coal Gross Proceeds Tax | $ 11,498,396 |
| Oil & Natural Gas Production Tax (Local Government Share) | 29,953,032 |
| Metal Mines Gross Proceeds Tax (estimated) | 3,173,637 |
| Miscellaneous Mines Net Proceeds Tax (estimated) | 2,200,900 |
| **Total Local Government Collections** | **$ 46,825,965** |

## COAL SEVERANCE TAX

**Tax Rates** (coal severance tax rates vary with heating quality and type of mining as follows):

| Heating quality (BTU per pound) | Surface Mining | Underground Mining |
|---|---|---|
| Under 7,000 | 10% of value | 3% of value |
| 7,000 and over | 15% of value | 4% of value |

**Value of Coal:** The value of coal to which the severance tax is applied is the "contract sales price". The contract sales price is the price of coal extracted and prepared for shipment f.o.b. mine, less that amount required to pay production taxes. Production taxes include the state severance tax, resource indemnity and groundwater assessment tax (RIGWAT), local gross proceeds taxes, federal reclamation taxes, and the federal Black Lung Tax. The contract sales price includes royalties up to $0.15 per ton paid to federal and state governments, or Indian tribes, and all royalties paid to other mineral rights owners.

**Filing Requirements:** Coal mine operators are required to file quarterly statements containing information sufficient to calculate the tax due. Tax payments are due at the time of filing (within 30 days following the close of each calendar quarter).

**Distribution of Coal Severance Tax Revenue**

| | |
|---|---|
| Coal Permanent Trust Fund | 50.00% |
| General Fund | 26.79% |
| Long Range Building Fund | 12.00% |
| Local Impact Fund | 8.36% |
| Parks Acquisition | 1.27% |
| Renewable Resource Loan Fund | 0.95% |
| Capitol/Arts Trust Fund | 0.63% |
| **Total** | **100.00%** |

**Coal Severance Tax Collections**

| | |
|---|---|
| FY1996 | $ 36,520,051 |
| FY1997 | $ 37,257,685 |
| FY1998 | $ 35,999,797 |
| FY1999 | $ 36,767,488 |
| FY2000 | $ 35,469,791 |

The balance in the Coal Trust Funds as of June 30, 2000, was $636 million, and the interest income from the trusts for fiscal year 2000 was $46 million.

**Production Incentives:** Persons producing less than 50,000 tons of coal in a year are exempt from severance tax. Persons producing in excess of 50,000 tons per year are exempt from severance tax on the first 20,000 tons produced. Effective calendar year 1995, a person is not liable for any severance tax upon the first 2,000,000 tons of coal produced as feedstock for an approved coal enhancement facility. This exemption terminates December 31, 2005.

## NATURAL GAS AND CRUDE OIL PRODUCTION TAX (STATE SHARE)

The 1995 Montana Legislature replaced all existing extraction taxes on all oil and natural gas production with a single production tax based on the type of well and type of production. This tax has been effective since January 1, 1996. The 1999 legislature further simplified the tax by reducing the number of rates.

| | Tax Rate |
|---|---|
| **NATURAL GAS** | |
| *TAXABLE ROYALTIES* | 15.10% |
| *Working Interest* | |
| Pre-1999 wells, regular production | 15.10% |
| Pre-1999 wells, producing less than 60 MCF/day | 11.30% |
| Horizontally completed wells | 9.30% |
| Post-1999 wells: | |
| First 12 months | .80% |
| After 12 months | 9.30% |
| **CRUDE OIL** | |
| *Taxable Royalties* | 15.10% |
| *Working Interest, Primary Recovery* | |
| Pre-1999 wells | 12.80% |
| Post-1999 wells | |
| First 12 months | .80% |
| After 12 months | 9.30% |
| *Working Interest, Stripper Wells (wells that average 3 to 15 bbls/day)* | |
| First 10 bbls/day | 5.80% |
| 10 - 15 bbls/day | 9.30% |
| *Working Interest, Stripper Exemption Wells (wells that average less than 3 bbls/day)* | .80% |
| *Working Interest, Horizontally Completed Wells* | |
| First 18 months | .80% |
| After 18 months | |
| Pre-1999 wells | 12.80% |
| Post-1999 wells | 9.30% |
| *Working Interest, Horizontally Recompleted Wells* | |
| First 18 months | 5.80% |
| After 18 months | |
| Pre-1999 Wells | 12.80% |
| Post-1999 Wells | 9.30% |
| *Working Interest, Incremental Production* | |
| Secondary Recovery | 8.80% |
| Tertiary Recovery | 6.10% |

### VALUE OF OIL
Total gross value is computed as the product of the total number of barrels produced each month and the average well head value per barrel. Producers are allowed to deduct any oil produced that is used in the operation of the well.

### VALUE OF GAS
Total gross value is computed as the product of the total number of cubic feet produced each month and the average well head value per cubic foot. Producers are allowed to deduct any natural gas produced that is used in the operation of the well.

**OIL AND GAS PRODUCTION TAX COLLECTIONS (STATE SHARE)**

| | |
|---|---|
| FY1996 | $ 11,550,425 |
| FY1997 | $ 14,692,365 |
| FY1998 | $ 11,207,910 |
| FY1999 | $ 9,145,984 |
| FY2000 | $ 14,817,289 |

### EXEMPTIONS
Royalties received by an Indian tribe from on-reservation oil production pursuant to a lease entered into under the Indian Mineral Leasing Act of 1938, and all governmental royalties, are exempt from taxation.

### FILING REQUIREMENTS
Oil and natural gas producers are required to file quarterly statements containing information sufficient to calculate the tax due. Tax payments are due at the time of filing (within 60 days following the close of each calendar quarter).

### DISTRIBUTION OF OIL AND GAS PRODUCTION TAX
The oil and gas production tax is distributed in the following manner:

**Natural Gas:** Approximately 15% of taxes collected from natural gas goes to support state government - 72% General Fund, 18% RIGWAT, 10% Board of Oil and Gas. The remaining 85% of taxes collected are distributed to local governments.

**Crude Oil:** Approximately 39% of taxes collected from oil goes to support state government - 79% General Fund, 13% RIGWAT, 8% Board of Oil and Gas. The remaining 61% of taxes collected are distributed to local governments.

### PRODUCTION INCENTIVES
Incremental production from secondary and tertiary recovery projects and recompleted horizontal wells are taxed at reduced rates as shown on the previous page. These reduced rates apply when the average price for West Texas Intermediate crude oil is less than $30 per barrel. Production from stripper wells is taxed at reduced rates as indicated above. The first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed or horizontally recompleted well is taxed at reduced rates as shown on the previous page.

## OIL TAXES IN THE 14 MAJOR OIL PRODUCING STATES

*(as of December, 1999)*

| State | Severance or Gross Production Tax Rate | Local Ad-Valorem Taxes Effective Rate | Misc. Taxes | Total Tax % | # Barrels (million) 1994 | # Barrels (million) 1998 |
|---|---|---|---|---|---|---|
| Alaska[1] | 15.0% | * | | 15.0% | 594.9 | 451.2 |
| Wyoming | 6.0% | 6.7% | | 12.7% | 86.4 | 52.7 |
| Montana[2] | 0.8% - 15.1% | | | 0.8% - 17.2% | 16.5 | 16.6 |
| Louisiana | 12.5% | * | | 12.5% | 125.7 | 92.7 |
| Texas[3] | 4.6% | 4% - 5% | 0.5% | 9.1% - 10.1% | 533.6 | 458.7 |
| North Dakota[4] | 5.0% - 11.5% | * | | 5.0% or 11.5% | 27.6 | 35.6 |
| Kansas[5] | 8.0% | | 2.727% | 8% (value)+2.727% (vol.) | 46.7 | 36.1 |
| Utah[3, 6] | 3.0% or 5.0% | 4% - 5% | 0.2% | 4.2% + Ad Valorem (4-5%) | 20.7 | 19.2 |
| New Mexico | 3.75% | 1.18% | 3.34% | 8.27% | 68.5 | 69.3 |
| Colorado[7] | 2% - 5% | 7.0% | 0.17% | 7.17% | 32.5 | 22.5 |
| Michigan | 6.6% | * | 1.0% | 7.6% | 12.1 | 4.4 |
| Oklahoma | 7.0% | * | 0.95% | 7.095% | 91.0 | 78.6 |
| Mississippi | 6.0% | * | | 6.0% | 19.5 | 21.3 |
| California | | 1.0% Max. | | 1.0% Max. | 286.3 | 285.0 |

** Severance (or gross production) tax is in lieu of local property taxes on the oil.*

1. Alaska's nominal rate of 15.0% (12.25% for the first five years for new fields) is reduced for each field by an economic limit factor determined by the field's total average daily production and its average daily production per well. Lower production fields have lower rates.

2. Montana's tax rates vary based on the type of well, when the well was drilled, and whether the taxpayer has a working or non-working interest. A portion of the production tax is allocated back to local governments in lieu of property taxes.

3. Texas and Utah have property taxes on oil properties, but it was not possible for local authorities to estimate an effective tax rate.

4. North Dakota has a gross production tax rate of 5% and oil extraction tax rates of 0.0%, 4.0% and 6.5%.

5. Kansas has an 8.0% severance tax, but allows a credit of up to 3.67% for property taxes paid on oil properties. The severance tax is based on value while the miscellaneous taxes are based on volume. The actual rate paid after the credit is 4.33%.

6. Information for Utah is through January 1, 1994. The severance tax is 3% on the first $13 per barrel and 5% on any amount over $13 per barrel.

7. Colorado has a 2% to 5% severance tax but allows 87.5% of local property taxes as a credit against the tax. Since property taxes average about 7%, this credit generally eliminates the severance tax liability.

**Source:** *All information presented was collected by the North Dakota Office of State Tax Commissioner, Oil and Gas Section, December 1999.*

## METALLIFEROUS MINES LICENSE TAX

Mining operations in which metal or gems are extracted are subject to a license tax which is based on the gross value of the product.

**Gross Value**
The value to which the tax rate is applied is the monetary payment the mining company receives from the metal trader, smelter, roaster, or refinery, determined by multiplying the quantity of metal received by the metal trader, smelter, roaster, or refinery by the quoted price for the metal and then subtracting basic treatment and refinery charges, quantity deductions, price deductions, interest and penalty, metal impurity, and moisture deductions as specified by contract between the mining company and the receiving metal trader, smelter, roaster, or refinery. Deductions also are allowed for the cost of transportation from the mine or mill to the smelter, roaster, or refinery.

**METALLIFEROUS MINES LICENSE TAX RATES**

| Product | Gross Value of Product | Tax Rate |
|---|---|---|
| Dore/Bullion/Matte | first $250,000 | 0.00% |
| | over $250,000 | 1.60% |
| Concentrates | first $250,000 | 0.00% |
| | over $250,000 | 1.81% |

**Filing Requirements**
Persons extracting metals are required to file reports containing information sufficient to calculate the tax due. Reports and payment of metal mines tax are due on or before March 31 of each year for the products produced in the preceding calendar year. Of the revenue collected during the biennium, 58% is deposited in the General Fund; 8.5% in the abandoned mines account; 7% in the reclamation and development grants account; 2.5% in the hard-rock mining impact trust account; and 24% to the county or counties identified as experiencing fiscal and economic impacts under an impact plan. If no such plan has been prepared, that same 24% goes instead to the county in which the mine is located.

## MICACEOUS MINES LICENSE TAX

Micaceous minerals are those that are generally classified as complex silicates, and include such minerals as vermiculite, perlite, kernite, maconite, bentonite, silica, bauxite, etc.

**Tax Rate**
$0.05 per ton of concentrates mined, extracted, or produced

**Filing Requirements**
Operators of micaceous mineral mines are required to file quarterly statements showing the number of tons of micaceous minerals mined. Quarterly returns, along with the accompanying tax payment, are due within 30 days following the end of each calendar quarter.

There have been no Micaceous Mines License Tax collections in the last seven fiscal years because there has been no production. All proceeds from the micaceous mines license tax are deposited in the state general fund.

## RESOURCE INDEMNITY AND GROUNDWATER ASSESSMENT TAX (RIGWAT)

**Filing Requirements**

All extractors and producers of minerals must file an annual statement showing the gross yield of product for each mineral mined.

Metal producers are required to file on or before March 31. All other producers are required to file on or before the 60th day following the end of the calendar year. The tax due is required to be paid at the time of filing the statement of gross yield.

**RIGWAT TAX RATES**

| | |
|---|---|
| Talc | $ 25 + 4% of gross value over $625 |
| Coal | $ 25 + 0.4% of gross value over $6,250 |
| Vermiculite | $ 25 + 2% of gross value over $1,250 |
| Limestone for quicklime | $ 25 + 10% of gross value over $250 |
| Industrial Garnets | $ 25 + 1% of gross value over $2,500 |
| All Other Minerals | $ 25 + 0.5% of gross value (if in excess of $5,000) |

**Exemptions**

1. Metal production subject to the metal mines license tax is exempt from RIGWAT.
2. Oil and gas royalties received by an Indian tribe, by the U.S. government as trustee for individual Indians, by the U.S. government, by the state of Montana, or by a county or municipality are exempt from RIGWAT.
3. Oil and natural gas production subject to the Oil and Gas Production tax is exempt from RIGWAT.

**Distribution of RIGWAT**

The resource indemnity trust fund was created to indemnify the citizens of Montana for the loss of long-term value resulting from the depletion of natural resource bases, and for environmental damage caused by mineral development. The fund is managed by the state Board of Investments.

**RIGWAT GROSS VALUES**

| | |
|---|---|
| Talc | $4.25 per ton, adjusted annually for inflation |
| Coal | Contract sales price |
| Vermiculite | $27 per ton, adjusted annually for inflation |
| Limestone for quicklime | $.34 per ton, adjusted annually for inflation |
| Industrial Garnets | $20 per ton, adjusted annually for inflation |
| All Other Minerals | Market value |

Until the balance in the resource indemnity trust reaches $100 million, half of collections are deposited in the trust, $300,000 is deposited in the groundwater assessment account, and the remainder is split evenly between the orphan share account and the reclamation and development grants account. After the balance reaches $100 million, $366,000 is to be deposited in the groundwater assessment account and the remainder is to be split evenly between the orphan share account and the reclamation and development grants account.

**RIGWAT TAX COLLECTIONS BY MINERAL**

| Mineral | FY1999 | FY2000 |
|---|---|---|
| Coal | $ 1,069,298 | $ 1,034,506 |
| Metals | 1,078 | 0 |
| Other | 203,363 | 288,595 |
| Total | $ 1,271,739 | $ 1,323,101 |

**Distribution of Interest Income from the Resource Indemnity Trust**
Annually:
- $240,000 to the renewable resource loan & grant program to support operations of the environmental science-water quality instructional program;
- $2,000,000 to the renewable resource loan & grant program for grants;
- $1,500,000 to the reclamation & development grants account;
- $300,000 to the groundwater assessment account;

At the beginning of the biennium:
- $175,000 to the environmental contingency account;
- $50,000 to the oil & gas mitigation account;
- $500,000 to the water storage state special revenue account;

Remainder:
- 26.0% to the hazardous waste/CERCLA special revenue account;
- 30.0% to the renewable resource loan & grant program;
- 9.0% to the environmental quality protection account;
- 35.0% to the reclamation & development grants account.

| RESOURCE INDEMNITY TRUST FUND | |
|---|---|
| Balance as of 6/30/00: | $ 97,701,287 |
| FY00 Interest Earned: | $ 7,200,280 |

## WHOLESALE ENERGY TRANSACTION TAX

The Wholesale Energy Transaction (WET) Tax generates revenue by taxing electric energy generation within Montana. HB174 (1999) reduced the taxable valuation rate applied to electric energy generation assets from 12% to 6%. To provide general fund replacement revenue from this change, HB174 also imposed a new Wholesale Energy Transmission (WET) Tax at a rate of $0.00015 per kilowatt hour (Kwh) on all electricity transmitted by a transmission service provided in the state. The new tax, effective January 1, 2000, is paid on a quarterly basis; hence, fiscal 2000 only received two quarters worth of payments from this new tax. By statute, 100% of the Wholesale Energy Transmission Tax is deposited in the state General Fund. *(MCA 15-72)*

| WHOLESALE ENERGY TRANSACTION TAX | |
|---|---|
| FY2000 | $ 1,705,093 |

## ELECTRICAL ENERGY PRODUCER LICENSE TAX

**Tax Rate =** $0.0002 per kilowatt hour produced.

**Filing Requirements**
Producers of electricity shall file quarterly returns showing the amount of electricity produced except for necessary plant use. The statements and tax due must be submitted within 30 days following the end of each calendar quarter. *(MCA 15-51-101)*

**Distribution of Electrical Energy Tax**
All proceeds are deposited in the state general fund.

**Production Incentives**
Not applicable. However, an interest differential credit is allowed utility providers for low-interest loans provided to customers for energy efficiency improvements.

| ELECTRICAL ENERGY TAX COLLECTIONS | |
|---|---|
| FY1996 | $ 3,520,407 |
| FY1997 | $ 3,849,052 |
| FY1998 | $ 4,401,728 |
| FY1999 | $ 4,618,433 |
| FY2000 | $ 4,829,002 |

## CEMENT AND GYPSUM TAXES AND LICENSES

**Tax Rates**
Producers, manufacturers, and importers pay $0.22 per ton of cement and $0.05 per ton of gypsum produced, manufactured, or imported. The cement taxation rate applies to each ton of cement sold at retail by cement dealers, when no other tax has previously been paid on the product.

**Filing Requirements**
Producers, manufacturers, and importers shall file quarterly statements showing the number of tons of cement or gypsum produced, manufactured, or imported. The statements, along with the tax due, must be submitted within 30 days following the end of each calendar quarter.

**Distribution**
All proceeds from cement and gypsum taxes and licenses are deposited in the state general fund.

**CEMENT TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 146,828 |
| FY1997 | $ 147,379 |
| FY1998 | $ 147,705 |
| FY1999 | $ 153,393 |
| FY2000 | $ 142,204 |

## COAL GROSS PROCEEDS TAX

**Tax Rates**
Legislation passed during the 1989 special session established a flat 5% tax on coal gross proceeds.

**Value of Coal**
The gross proceeds of coal is determined by multiplying the number of tons produced times the contract sales price.

**COAL GROSS PROCEEDS TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 12,460,066 |
| FY1997 | $ 12,491,842 |
| FY1998 | $ 12,543,909 |
| FY1999 | $ 10,870,799 |
| FY2000 | $ 11,498,396 |

**Filing Requirements**
On or before March 31st of every year, each person or firm engaged in mining coal must file a statement of gross yield for every mine operated in the preceding year. The producer must pay 50% of the taxes due on or before November 30; the remaining 50% is due on or before May 31 of the following year.

**Distribution of Coal Gross Proceeds Tax**
The revenue is proportionally distributed to the appropriate taxing jurisdictions in which production occurred based on the total number of mills levied in fiscal year 1990.

## METAL MINES GROSS PROCEEDS TAX

**Tax Rates**

For property tax purposes, the taxable value of metal mines is equal to 3% of annual gross proceeds. This amount is then subject to local mill levies in the jurisdictions in which the taxable value of the mining operation is allocated.

**Gross Value**

Total gross proceeds means the monetary payment or refined metal received by the mining company from the metal trader, smelter, roaster, or refinery, determined by multiplying the quantity of metal received by the quoted price for the metal and then subtracting basic treatment and refinery charges, quantity deductions, price deductions, interest and penalty, metal impurity, and moisture deductions as specified by contract. Metal mines that produce less than 20,000 tons of ore in a year are exempt from property taxation on one-half of the merchantable value.

**Filing Requirements**

Persons mining metals are required to file a statement, on or before March 31 of each year, showing the total gross proceeds of metal mined during the preceding calendar year.

**Distribution of Metal Mines Gross Proceeds Tax**

The taxable valuation of hard-rock mining operations is subject to allocations specified by hard-rock mining impact property tax base sharing laws. Generally, the tax base is allocated to taxing jurisdictions based on their associated relative economic impacts.

**METAL MINES GROSS PROCEEDS ESTIMATED TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 3,317,249 |
| FY1997 | $ 3,105,127 |
| FY1998 | $ 3,099,270 |
| FY1999 | $ 3,814,503 |
| FY2000 | $ 3,173,637 |

## MISCELLANEOUS MINES NET PROCEEDS TAX

**Tax Rates**
For property tax purposes, the taxable value of mines other than metal and coal mines (bentonite, talc, vermiculite, etc.) is equal to 100% of annual net proceeds. This amount is then subject to local mill levies in the jurisdictions where the mining operation is located.

**MISCELLANEOUS MINES NET PROCEEDS DETERMINATION**

| | |
|---|---|
| Talc | $4.25 per ton, adjusted annually for inflation |
| Coal | Based on the contract sales price |
| Vermiculite | $27.00 per ton, adjusted annually for inflation |
| Limestone for quicklime | $.34 per ton, adjusted annually for inflation |
| Industrial Garnets | $20.00 per ton, adjusted annually for inflation |
| All Other Minerals | Gross proceeds minus allowable costs |

**Exemptions**
Sand, gravel, travertine and building stone are exempt from mines net proceeds taxation. Producers of industrial garnets are exempt from mines net proceeds taxation on their first 1,000 tons of production.

**Filing Requirements**
Persons operating miscellaneous mines are required to file a statement, on or before March 31 of each year, showing the total gross proceeds of minerals mined during the preceding calendar year, and information on costs associated with the mining operation sufficient to allow calculation of the net proceeds from the operation.

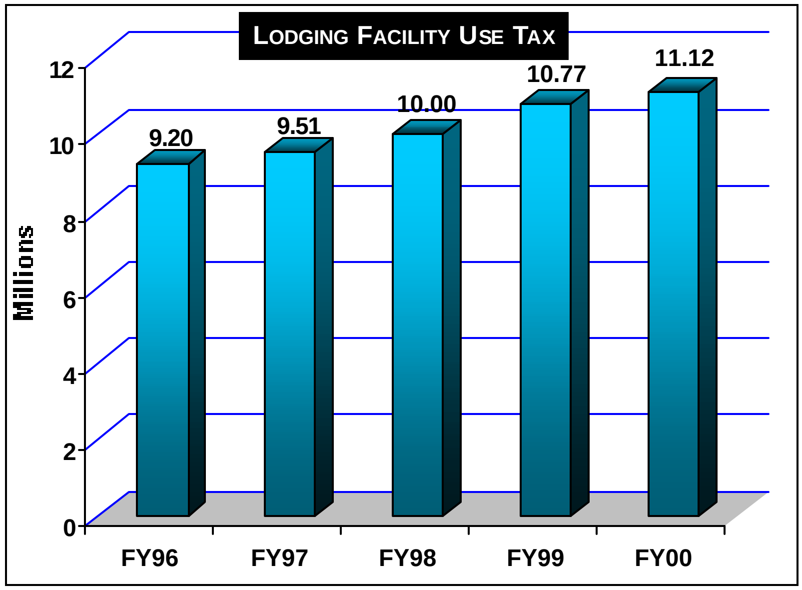
**MISCELLANEOUS MINES NET PROCEEDS ESTIMATED TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 1,788,455 |
| FY1997 | $ 2,354,185 |
| FY1998 | $ 2,568,247 |
| FY1999 | $ 2,350,297 |
| FY2000 | $ 2,200,900 |

**Distribution of Miscellaneous Mines Net Proceeds Tax**
The net proceeds of miscellaneous mines is subject to mill levies of those taxing jurisdictions in which the mine is located. The tax is distributed on the basis of relative mills levied by all jurisdictions levying taxes in the area.

## LODGING FACILITY USE TAX

A tax is imposed on users of overnight lodging facilities. This tax is 4% of the lodging charge and is collected by the owner or operator of the facility.



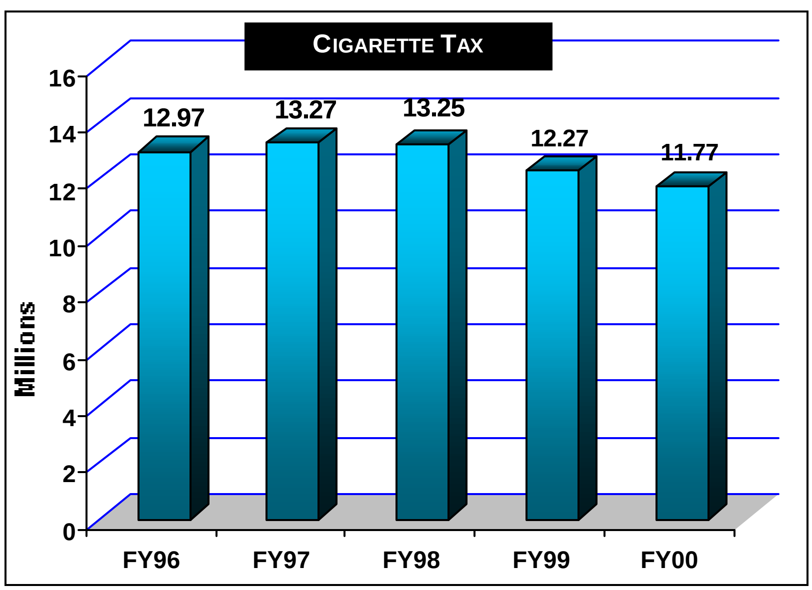

**LODGING FACILITY USE TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 9,197,924 |
| FY1997 | $ 9,509,673 |
| FY1998 | $ 10,008,143 |
| FY1999 | $ 10,773,706 |
| FY2000 | $ 11,119,551 |

Proceeds from the tax are deposited in a state special revenue fund to the credit of the Department of Revenue. Department administrative costs are paid, various state funds are reimbursed for taxes paid by state agencies for in-state lodging and $400,000 each year goes to Montana Heritage Preservation Fund. The balance is distributed: 67.5% to the Department of Commerce for its direct use, 1% to the Montana Historical Society, 2.5% to the university system for the Montana Travel Research Program, and 6.5% to the Department of Fish, Wildlife and Parks for maintenance of facilities. The remaining 22.5% goes to various regional nonprofit tourism corporations unless that particular city-county area collects in excess of $35,000 in proceeds annually. In this instance, half of the amount available for distribution to the nonprofit tourism corporation would instead go to a nonprofit convention and visitors bureau in that city-county region. *(MCA 15-65-111, 15-65-121.)*

## CIGARETTE TAX

Montana cigarette wholesalers pre-collect a tax of 18¢ per package of 20 cigarettes. The tax is included in the retail price of the cigarettes. A tax insignia must be affixed to each package by the wholesaler licensed to purchase insignias at face value less allowances to defray costs of affixing insignias and pre-collecting the tax on behalf of the State of Montana.

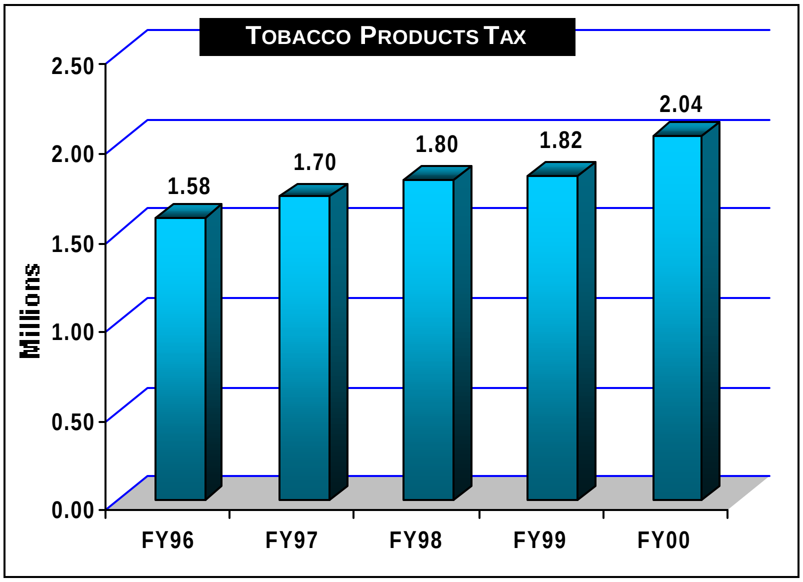



**CIGARETTE TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 12,969,137 |
| FY1997 | $ 13,267,374 |
| FY1998 | $ 13,245,000 |
| FY1999 | $ 12,265,347 |
| FY2000 | $ 11,766,271 |

Cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the General Fund; 15.85% to the Long-Range Building Account; and 11.11% to the Department of Public Health and Human Services. *(MCA 16-11-111, 119)*

## TOBACCO PRODUCTS TAX

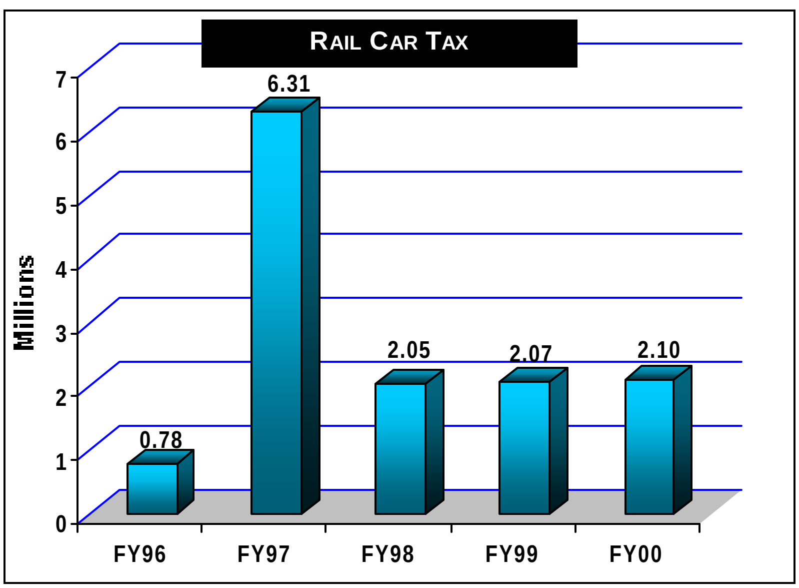



All tobacco products, excluding cigarettes, are subject to a tax of 12.5% of their wholesale price. The tax is collected from the wholesaler less a 5% defrayment for collection and administrative expenses. Tobacco products tax revenues, after tribal revenue sharing payments, are deposited in the General Fund. *(MCA 16-11-202, 206)*

**TOBACCO PRODUCTS TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 1,579,547 |
| FY1997 | $ 1,702,313 |
| FY1998 | $ 1,801,084 |
| FY1999 | $ 1,817,971 |
| FY2000 | $ 2,042,241 |

## RAIL CAR TAX




Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The rail car tax is a tax assessed on the rolling stock of freight line companies. Section 15-23-214, MCA, states that the tax shall be computed by multiplying the taxable value of the property by the average statewide mill levy for commercial and industrial property. The General Fund receives 100% of the rail car tax revenue.

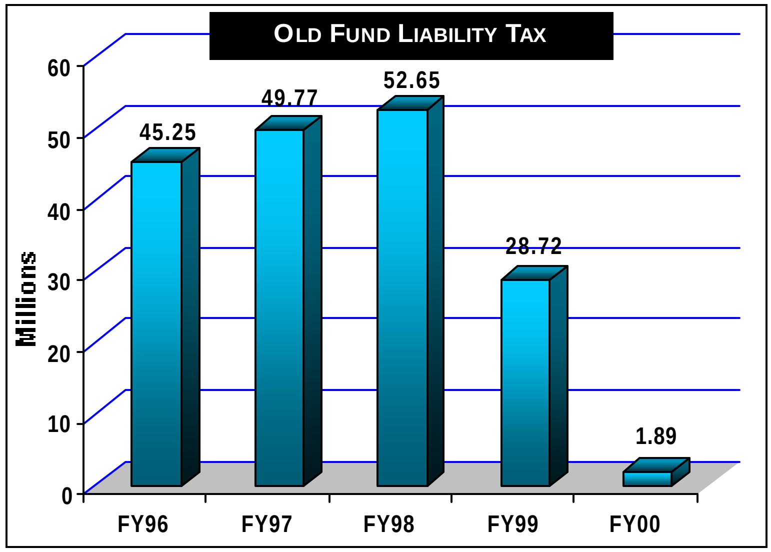
The large increase in General Fund collections in fiscal 1997 is due to a settlement agreement as a result of federal court litigation. The settlement brought in revenues due from prior years.

**Rail Car Tax**

| | |
|---|---|
| FY1996 | $ 780,125 |
| FY1997 | $ 6,309,000 |
| FY1998 | $ 2,054,244 |
| FY1999 | $ 2,074,000 |
| FY2000 | $ 2,100,600 |

## OLD FUND LIABILITY TAX

Effective July 1, 1993 the Old Fund Liability Tax replaced the Workers' Compensation Payroll Tax. For FY94, employers paid a 0.5% tax on payroll and employees paid a 0.2% tax, with some exceptions. The self-employed paid a 0.1% tax for tax year 1993 and 0.2% for tax year 1994. The revenue from this tax goes to the workers' compensation tax account in the state special revenue fund for bond repayment.



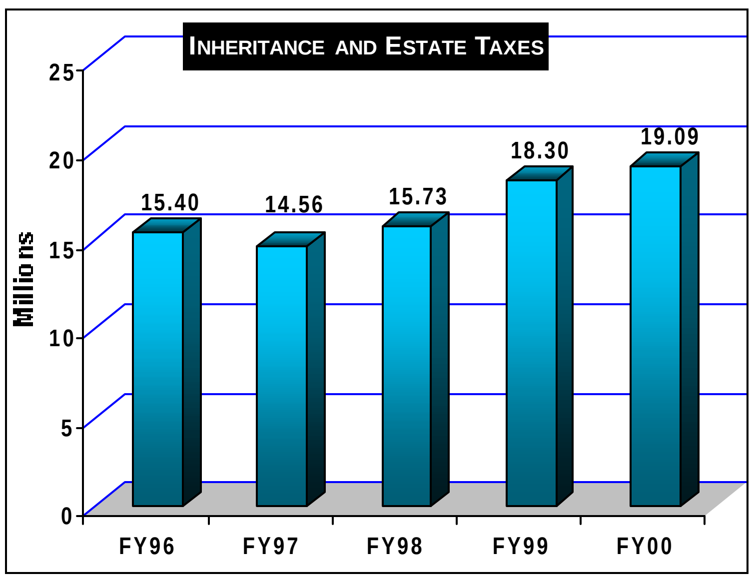

**OLD FUND LIABILITY TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 45,254,475 |
| FY1997 | $ 49,770,930 |
| FY1998 | $ 52,650,637 |
| FY1999 | $ 28,722,230 |
| FY2000 | $ 1,892,208 |

Any surplus must be used to reduce the unfunded liability in the state fund incurred for claims for injuries that occurred prior to July 1, 1990. Effective December 31, 1998, the OFLT is no longer levied, due to sufficient funds in the account. *(MCA 39-71-2505)*

## INHERITANCE AND ESTATE TAXES

Montana's inheritance tax is levied on bequests made by Montana residents and on bequests of real property located in Montana. Bequests to surviving spouses and descendants are exempt, as are properties of a closely held business when left to a close relative. Tax rates depend on the relationship between the deceased and the heirs and on the size of the estate. *(MCA 72-16-321)*



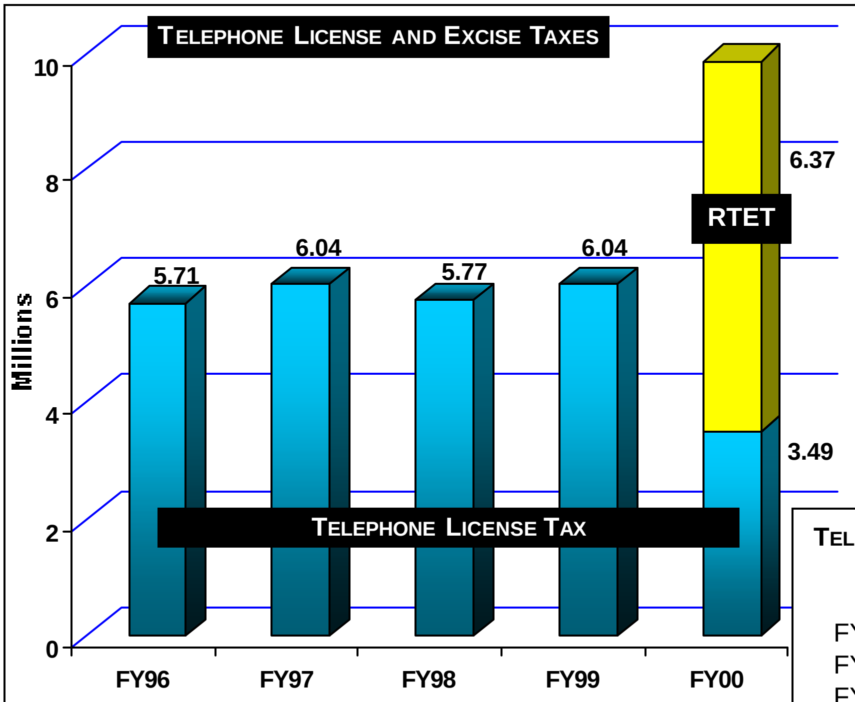

**INHERITANCE TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 15,404,110 |
| FY1997 | $ 14,562,382 |
| FY1998 | $ 15,726,605 |
| FY1999 | $ 18,301,680 |
| FY2000 | $ 19,038,785 |

The federal estate tax allows a credit for state inheritance and estate taxes. Montana's estate tax is equal to the difference between inheritance taxes owed by an estate and the maximum credit against federal estate taxes.

Montana's inheritance tax was repealed by the passage of I-115 in November, 2000. As a result, the Inheritance Tax will not apply to bequests made on or after January 1, 2001. The estate tax will continue to apply. Inheritance and estate tax collections are deposited in the General Fund. *(MCA 72-16-321,322)*

## TELEPHONE COMPANY LICENSE TAX AND RETAIL TELECOMMUNICATIONS EXCISE TAX (RTET)

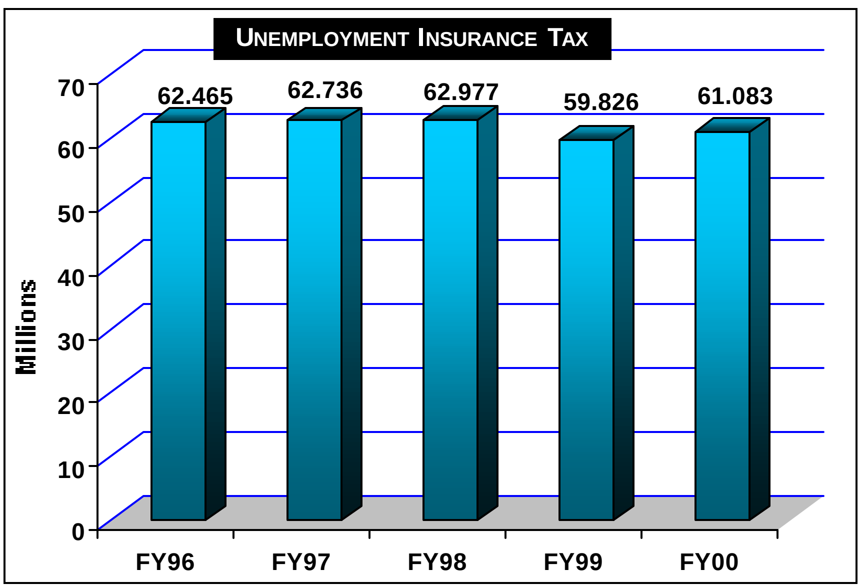



Through 1999, Montana levied a telephone company license tax of 1.8% on the gross revenue that telephone companies earned from in-state telephone calls. On January 1, 2000, this tax was replaced by the retail telecommunications excise tax, with a rate of 3.75%. This is a tax on retail sales of telecommunications services where one end of the transmission is in Montana and the bill is sent to a Montana address. All receipts of both the telephone company license tax and the retail telecommunications excise tax are deposited in the General Fund.

**TELEPHONE LICENSE TAX COLLECTIONS 1996 - 2000**
**TELEPHONE EXCISE TAX COLLECTIONS 2000**

| | | |
|---|---|---|
| FY1996 | $ 5,711,933 | N/A |
| FY1997 | $ 6,045,081 | N/A |
| FY1998 | $ 5,773,341 | N/A |
| FY1999 | $ 6,036,769 | N/A |
| FY2000 | $ 3,490,590 | $ 6,366,299 |

## UNEMPLOYMENT INSURANCE TAX




In July 1997, the Department of Revenue and the Department of Labor and Industry entered into a cooperative agreement which delegates to the Department of Revenue certain Unemployment Insurance tax collection and related activities. The tax collection activities include establishing employer experience rating, determining employer class, calculating the tax liability, tax collection and compliance. Each employer is included into an appropriate class of covered employers. Based on the employer's type of coverage a tax rate is calculated based on the contribution rate schedule and the employers reserve ratio. *(MCA 39-51-101)*

**UNEMPLOYMENT INSURANCE TAX**

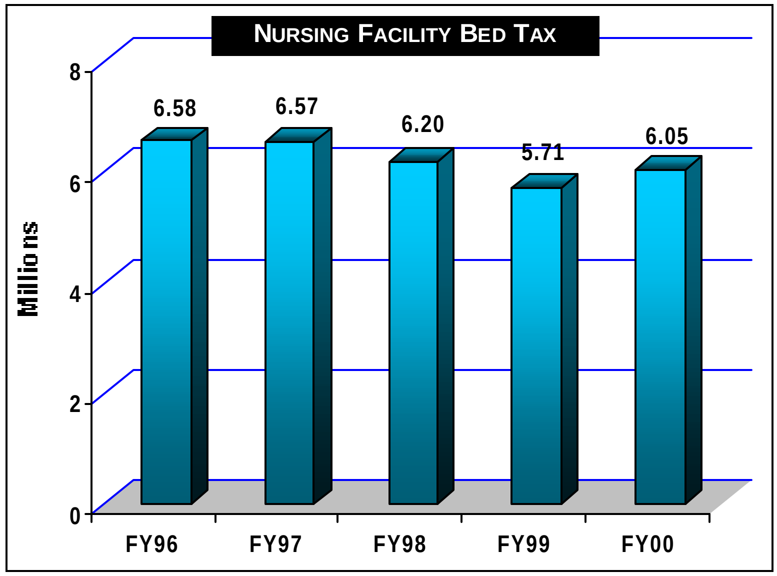
| | |
|---|---|
| FY1996 | $ 62,465,253 |
| FY1997 | $ 62,735,866 |
| FY1998 | $ 62,976,826 |
| FY1999 | $ 59,826,218 |
| FY2000 | $ 61,028,845 |

## NURSING FACILITY BED TAX

Nursing facilities in Montana pay a utilization fee of $2.80 for each occupied bed day. All revenues are deposited to the General Fund. *(MCA 15-60)*

**NURSING FACILITY BED TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 6,579,620 |
| FY1997 | $ 6,572,123 |
| FY1998 | $ 6,200,413 |
| FY1999 | $ 5,713,357 |
| FY2000 | $ 6,054,947 |

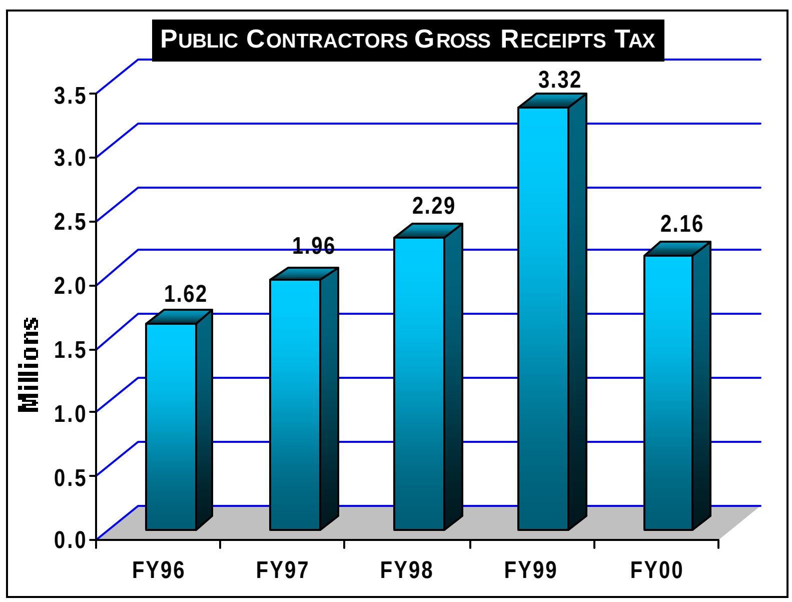



## PUBLIC CONTRACTORS GROSS RECEIPTS TAX

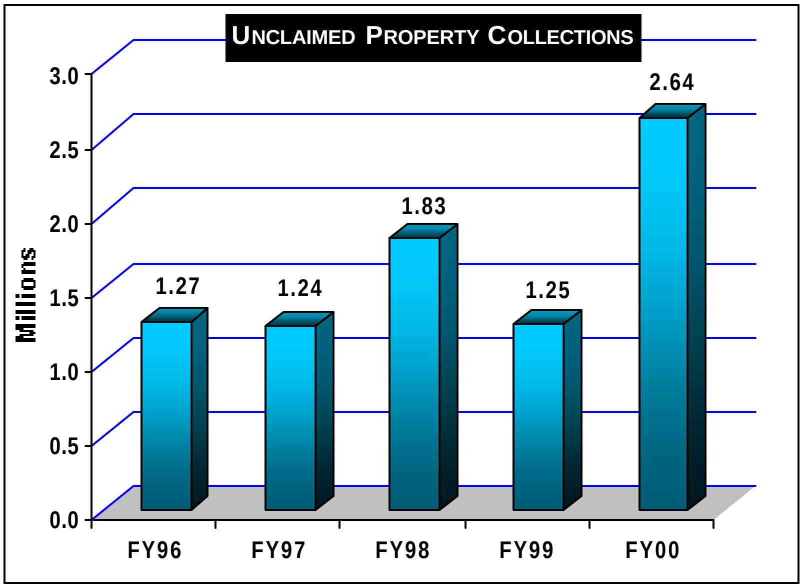
Prime contractors and all levels of subcontractors must pay a tax amounting to 1% of all public contracts over $5,000. Contractors can obtain part or all of the tax back by requesting refunds for personal property taxes paid on assets used in their contracting business and by claiming credit on their individual Montana income tax return or Montana Corporation License Tax return. Revenues are deposited to the credit of the General Fund. *(MCA 15-50-101)*

**PUBLIC CONTRACTORS GROSS RECEIPTS COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 1,621,441 |
| FY1997 | $ 1,963,791 |
| FY1998 | $ 2,290,944 |
| FY1999 | $ 3,320,402 |
| FY2000 | $ 2,162,223 |



## UNCLAIMED/ ABANDONED PROPERTY

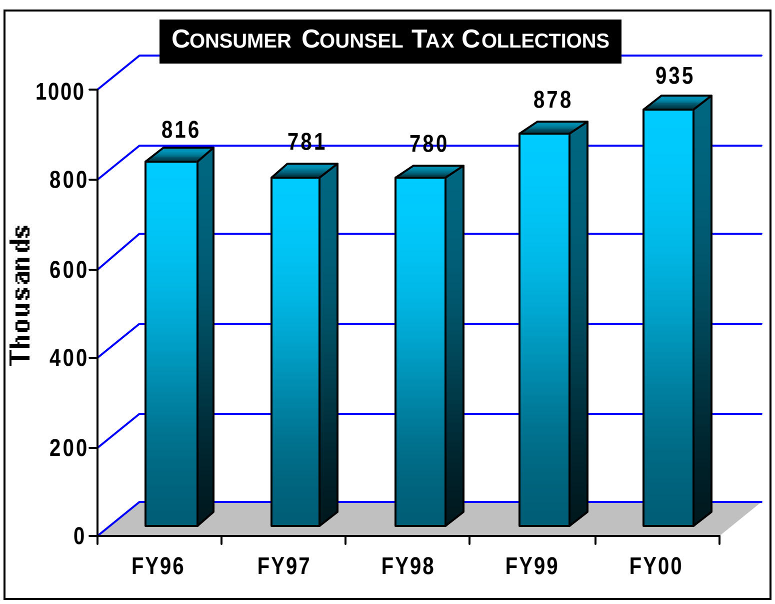



Under Montana's Uniform Unclaimed Property Act any intangible, and certain tangible property, unclaimed by its owner must be turned over to the Department of Revenue. Montana is considered a "custodial state" and holds such property on behalf of the owners of lost or abandoned property.

**UNCLAIMED PROPERTY COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 1,272,859 |
| FY1997 | $ 1,240,407 |
| FY1998 | $ 1,831,638 |
| FY1999 | $ 1,247,508 |
| FY2000 | $ 2,637,532 |

## CONSUMER COUNSEL TAX




All companies providing services which are regulated by the Public Service Commission are subject to a quarterly Consumer Counsel Tax on gross operating revenue. The tax rate is set annually for the succeeding fiscal year to cover appropriations to the office of the consumer counsel. All collections are deposited in a state special revenue fund. *(MCA 69-1-201, 223, 224)*

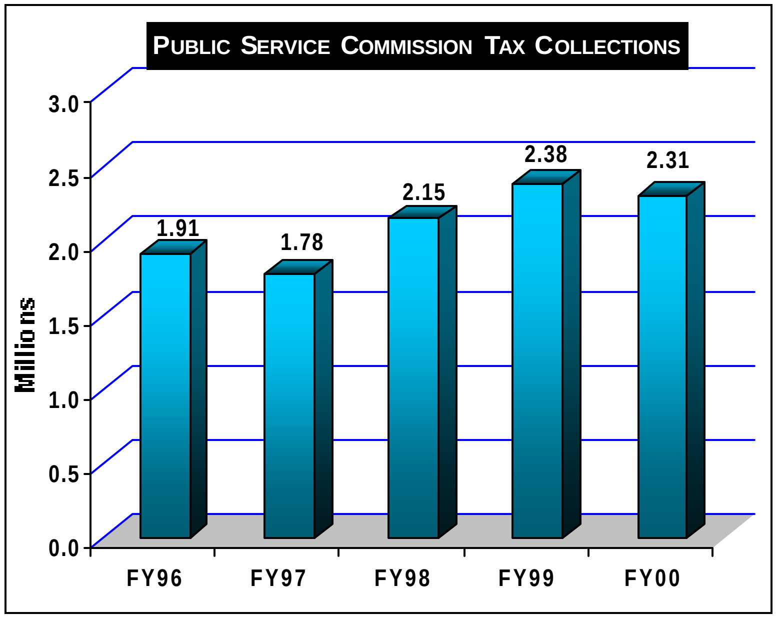
**CONSUMER COUNSEL TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 815,801 |
| FY1997 | $ 781,279 |
| FY1998 | $ 779,809 |
| FY1999 | $ 877,935 |
| FY2000 | $ 934,826 |

## PUBLIC SERVICE COMMISSION TAX

All companies providing services which are regulated by the Public Service Commission are subject to a quarterly tax on gross revenues excluding revenues from sales to other regulated companies for resale. The tax rate is set annually for the succeeding fiscal year. All collections are deposited in a state special revenue fund. *(MCA 69-1-402)*

| PUBLIC SERVICE COMMISSION TAX COLLECTIONS | |
|---|---|
| FY1996 | $ 1,915,092 |
| FY1997 | $ 1,780,150 |
| FY1998 | $ 2,154,289 |
| FY1999 | $ 2,383,511 |
| FY2000 | $ 2,309,137 |

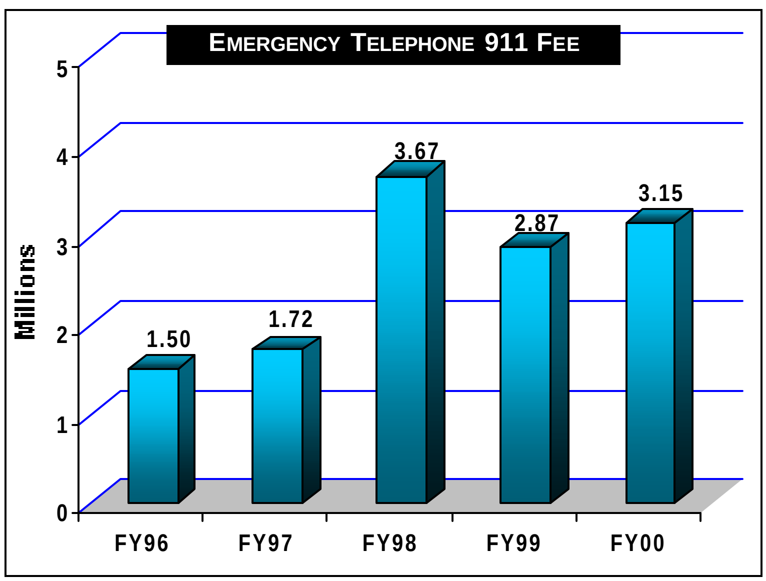



## STATEWIDE EMERGENCY TELEPHONE 911 SYSTEM FEE

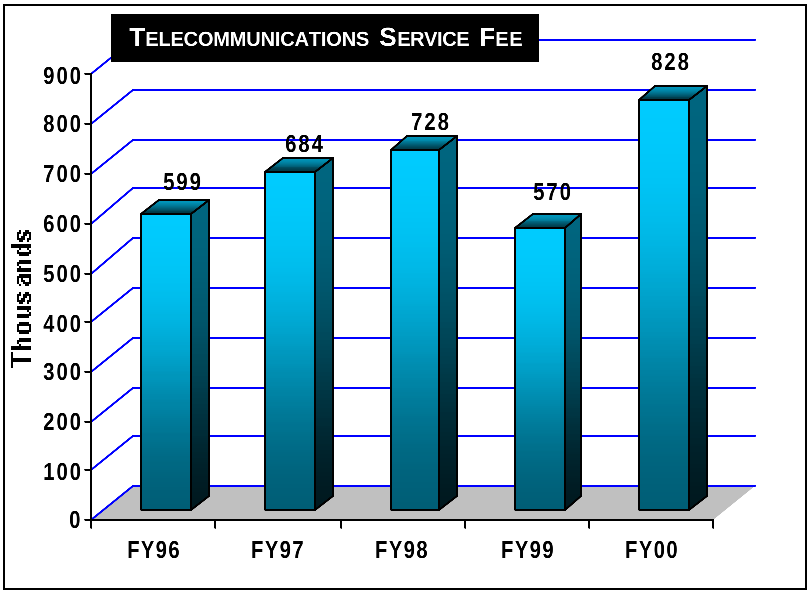
A fee of $.50 per month per access line (before July 1, 1997 the fee was $.25) on each service subscriber in the state is imposed on the amount charged for telephone exchange access services. Services that the state is prohibited from taxing and coin operated public telephones are exempt from this fee. The revenue from this fee is deposited in a special revenue fund for the development of emergency 9-1-1 systems in the state. *(MCA 10-4-201)*

| EMERGENCY TELEPHONE 911 FEE COLLECTIONS | |
|---|---|
| FY1996 | $ 1,501,596 |
| FY1997 | $ 1,719,562 |
| FY1998* | $ 3,666,571 |
| FY1999 | $ 2,868,094 |
| FY2000 | $ 3,145,387 |

** rate changed from $.25 to $.50*



## TDD TELECOMMUNICATIONS SERVICE FEE

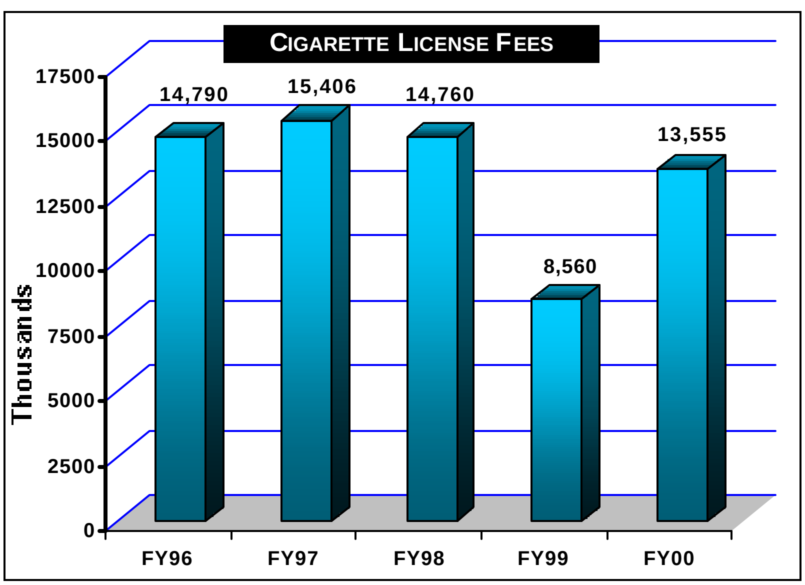



A fee of $.10 per month per access line on each service subscriber in the state is imposed on the amount charged for telephone exchange access services. The revenue from this fee is deposited in the telecommunications special revenue fund for the physically disabled that are unable to use traditional telecommunications equipment. This fund is used to provide telecommunications devices for the deaf (TDD). *(MCA 53-19-311)*

**TELECOMMUNICATIONS SERVICE FEE**

| | |
|---|---|
| FY1996 | $ 598,763 |
| FY1997 | $ 683,717 |
| FY1998 | $ 728,017 |
| FY1999 | $ 570,089 |
| FY2000 | $ 828,183 |

## CIGARETTE WHOLESALERS AND RETAILERS LICENSE FEES




A license fee is imposed on cigarette dealers in Montana. Wholesalers, subjobbers and vendors (possessing ten or more machines) pay an annual license fee of $50. Retailers and vendors (possessing nine or fewer machines) pay an annual license fee of $5. *(MCA 16-11-120)*

**CIGARETTE LICENSE FEE COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 14,790 |
| FY1997 | $ 15,406 |
| FY1998 | $ 14,760 |
| FY1999 | $ 8,560 |
| FY2000 | $ 13,555 |

## Overview of Alcohol Taxes

The Department of Revenue administers Title 16, Chapters 1 through 6, Montana Code Annotated which relates to alcoholic beverage control, sale, and distribution, and the licensing of alcoholic beverage manufactures, whole-salers and retailers.

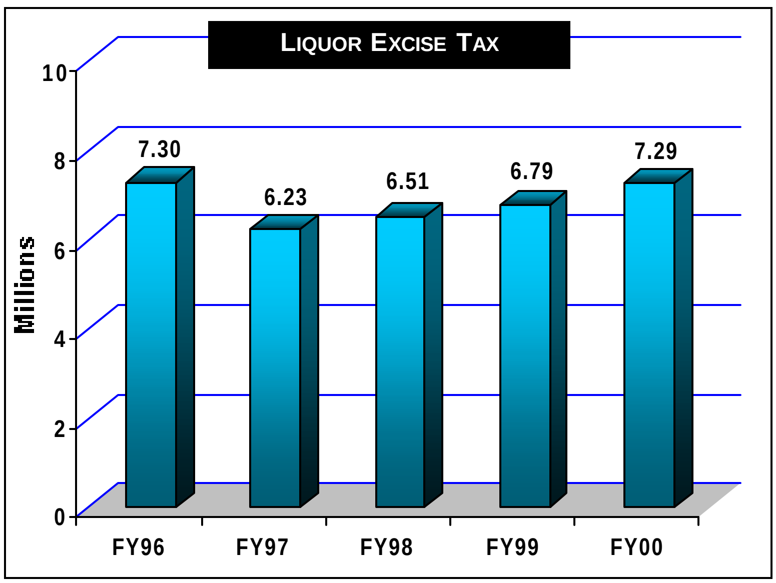
Warehouse inventory management, warehouse shipping and receiving, agents' order processing, agents' accounts receivable management, and customer service functions are all duties performed by the Resource Management Process.

The Customer Intake Process is charged with all licensing and regulatory responsibilities for all-beverage, beer, and wine licensees. Additionally, the process oversees brewery and winery registrations, vendor permit applications and renewals, special retail beer permit applications, and provides information and explanation about licensing activity or related law, rule, policy and procedures.

An explanation of revenues and their distribution to cities, towns, and counties may be found in the 1997 Annual Financial Report of the Liquor Enterprise Fund from the Resource Management Process.

## Liquor Excise Tax

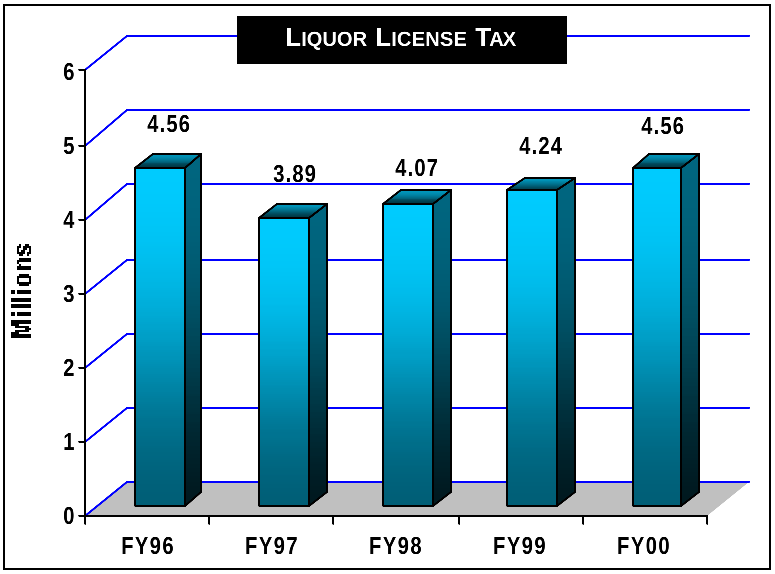
The Department of Revenue collects an excise tax of 16% of the retail selling price on all liquor sold by the state. The excise tax on products sold by companies whose annual sales do not exceed 200,000 proof gallons of liquor nationwide in the preceding year, is 13.8%. Collections are deposited in the General Fund. *(MCA 16-1-401)*




**Liquor Excise Tax Collections**

| | |
|---|---|
| FY1996 | $ 7,304,750 |
| FY1997 | $ 6,230,501 |
| FY1998 | $ 6,515,413 |
| FY1999 | $ 6,786,469 |
| FY2000 | $ 7,292,796 |

## LIQUOR LICENSE TAX

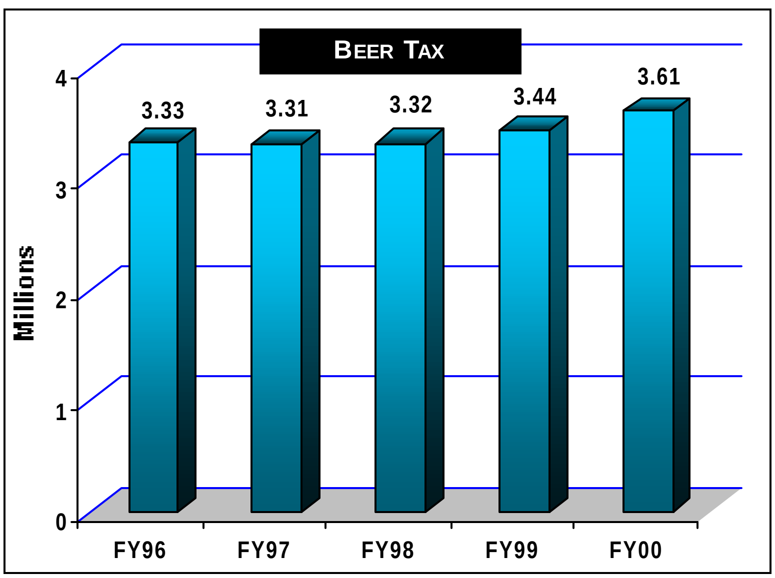



A license tax equal to 10% of the retail selling price of all liquor sold by the state is levied in Montana. The license tax is in addition to the liquor excise tax. The liquor license tax on products sold by companies whose annual sales do not exceed 200,000 proof gallons of liquor nationwide in the preceding year is 8.6%. Collections are deposited 65.5% to Department of Health and Human Services, 31% to cities and towns, and 4.5% to counties. *(MCA 16-1-404)*

**LIQUOR LICENSE TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 4,564,287 |
| FY1997 | $ 3,893,221 |
| FY1998 | $ 4,069,693 |
| FY1999 | $ 4,238,338 |
| FY2000 | $ 4,560,286 |

## BEER TAX




A monthly tax of $4.30 per barrel of thirty-one gallons is imposed on beer sold by any Montana wholesaler. This tax applies to all beer whether brewed in this state or imported from outside. Beer tax revenues are deposited 65.12% to cities and towns, 23.25% to the Department of Public Health and Human Services for treatment, rehabilitation and prevention of alcoholism, and 11.63% to the General Fund. A small portion of beer tax revenue is refunded from the General Fund to the tribes that have a revenue-sharing agreement with the state. *(MCA 16-1-406)*

**BEER TAX COLLECTIONS**

| | |
|---|---|
| FY1996 | $3,329,867 |
| FY1997 | $3,318,448 |
| FY1998 | $3,324,479 |
| FY1999 | $3,443,466 |
| FY2000 | $3,613,076 |

## TABLE WINE TAX

A tax of 27¢ per liter on table wine and a tax of 3.7¢ per liter on hard cider is levied on the amount imported by any distributor or the Department of Revenue. The revenues collected from the tax are deposited 59% to the General Fund, 31% to the Department of Public Health and Human Services for treatment, rehabilitation and prevention of alcoholism, 5% to counties, and 5% to cities and towns. A small portion of wine tax revenue is refunded from the General Fund to the tribes that have a revenue-sharing agreement with the state. *(MCA 16-1-411)*

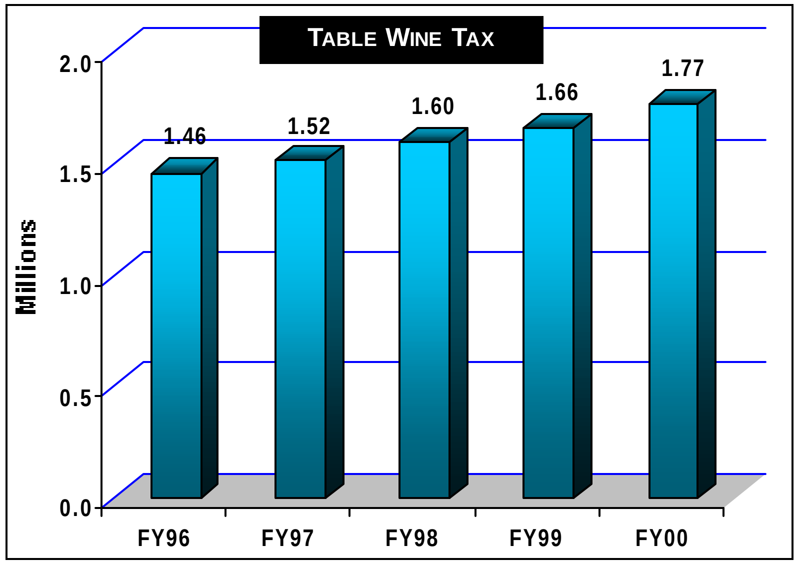



**TABLE WINE TAX COLLECTIONS**

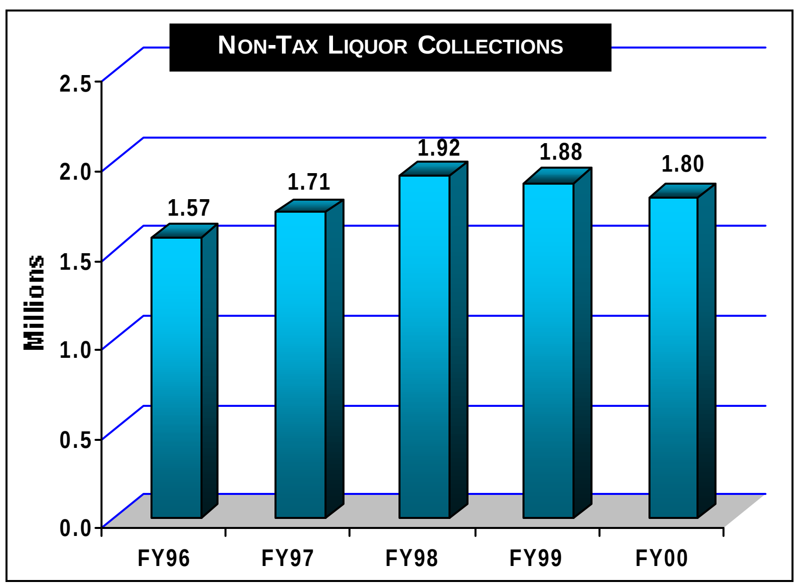
| | |
|---|---|
| FY1996 | $ 1,459,901 |
| FY1997 | $ 1,525,375 |
| FY1998 | $ 1,600,500 |
| FY1999 | $ 1,661,112 |
| FY2000 | $ 1,767,654 |

## NONTAX ALCOHOLIC BEVERAGE LICENSE & FEE COLLECTIONS

All-Beverage Licenses issued in cities with populations of 10,000 or more are subject to a one-time fee of $20,000. In cities of 10,000 population or larger, an annual renewal fee of $800 is charged. Smaller cities and towns require lower fees.

**NON-TAX LIQUOR COLLECTIONS**

| | |
|---|---|
| FY1996 | $ 1,569,923 |
| FY1997 | $ 1,711,383 |
| FY1998 | $ 1,925,247 |
| FY1999 | $ 1,847,265 |
| FY2000 | $ 1,798,601 |




The number of licenses available in any given area depends on the population. Nationally chartered veterans organizations, airlines, railroads, resorts and caterers pay specific fees different from those collected for other liquor licenses. Liquor license fees are deposited in the General Fund. Following the passage of HB574 in 1995, the state warehouses liquor and sells the liquor to authorized agencies statewide at a price sufficient to cover expenses. The state uses a contracted carrier to transport liquor to each agency store.

## NUMBER OF LICENSEES BY LICENSE TYPE
## AS OF DECEMBER 20, 2000

| Type of License | Number Issued | Annual Fee |
|---|---|---|
| ***Off-Premise*** | | |
| Agencies | 98 | No Fee |
| Beer | 204 | $ 200 |
| Wine | 5 | $ 200 |
| Beer & Wine | 756 | $ 400 |
| Total Off-Premise | 1,063 | |
| ***On-Premise*** | | |
| Beer | 93 | $ 200 |
| Beer & Wine | 525 | $ 400 |
| Beer,Wine, & Spirits | 1,604 | $400 - 800 |
| Total On-Premise | 2,222 | |

| Type of License | Number Issued | Annual Fee |
|---|---|---|
| ***Wholesale*** | | |
| Beer | 11 | $ 400 |
| Wine | 2 | $ 400 |
| Beer & Wine | 24 | $ 800 |
| Total Wholesale | 37 | |
| ***Suppliers*** | | |
| Beer | 95 | $ 500 |
| Wine | 293 | $ 25 |
| Total Suppliers | 388 | |

## SELECTED COMPARISONS OF LICENSE FEES 2000

| State | Fee | On-Premise License |
|---|---|---|
| Montana | $ 400 - 800 | All Beverages |
| | $ 400 | Beer and Wine |
| | $ 400 - 800 | Fraternal All Beverages |
| | $ 250 - 650 | Veteran's All Beverages |
| Wyoming | $ 500 - 3000 | Restaurant License |
| | $ 100 - 1500 | County Malt Beverage |
| | $ 100 - 1500 | Fraternal, Veteran, Golf ,Social |
| Idaho | $ 50 | Beer |
| | $ 150 | Wine |
| | $ 150 | Liquor |
| Washington | $ 400 - 520 | Beer |
| | $ 400 - 520 | Wine |
| | $ 1000 - 2000 | Beer, Wine, Spirits Club |
| South Dakota | $ 500 | Retail Wine |
| | Set at local Level | Retail Spirits, Beer, & Wine |
| North Dakota | $ 100 - 200 | Spirits, Beer, Wine |

***SOURCE:*** *National Alcohol Beverage Control Association Annual Survey, 1999*

## OVERVIEW OF PROPERTY TAX

The Department of Revenue is responsible for ensuring that all property in the state is treated fairly. The department's duties include the appraisal, assessment, and equalization of the value of all property in the state for the purpose of taxation.

Most real estate, improvements, and personal property are appraised by state Department of Revenue employees in regional offices. The department maintains a presence in each county. Property owned by companies that is single and continuous and is in more than one county (such as railroads, telecommunications, electric utilities and pipelines) is centrally assessed by the Department of Revenue. The valuation is apportioned to counties and other jurisdictions on a mileage basis, or on another basis determined to be "reasonable and proper."

In 1975, the legislature required the Department of Revenue to administer and supervise a program for the revaluation of taxable property on a cyclical reappraisal cycle every five years. In 1991, the legislature reduced the timeframe of subsequent reappraisal cycles. Revaluations (more commonly called reappraisal cycles) are designed to insure that all property is taxed on current structural, market and income information. Montana's second statewide reappraisal was completed in 1985. The new reappraisal values were first used for the 1986 tax year. The third reappraisal cycle was completed in 1992, except for forest land and agricultural land, which were completed in 1993. New reappraisal values for commercial and residential property were used for the 1993 tax year. New forest land and agricultural land values were used in the 1994 tax year. The state's fourth reappraisal was completed on December 31, 1996. The 1997 Legislature passed SB195 which mitigated the impact of the reappraisal values by phasing-in those values at the rate of 2% per year and by reducing the tax rate by .022 points per year. The SB195 phase-in values were used for the 1997 and 1998 tax years.

The 1999 Legislature once again addressed the impacts of the 1997 reappraisal in SB184. To mitigate the impacts of the 1997 reappraisal, SB184 did the following:

1. Phased in over a four-year period the changes in assessed values of agricultural land (class 3), forest land (class 10), and residential and commercial properties (class 4).

2. Reduced the taxable rates applied to classes 3, 4, and 10 as shown in the following schedule:

| Tax Year | Class 3 and 4 Rate | Class 10 Rate |
|---|---|---|
| 1999 | 3.710% | 0.68% |
| 2000 | 3.627% | 0.57% |
| 2001 | 3.543% | 0.46% |
| 2002 | 3.460% | 0.35% |

3. Instituted new "homestead" and "comstead" exemptions that exempt a portion of the market value of Class 4 residential and commercial properties from taxation in accordance with the following schedule:

| Tax Year | Residential Exemption | Commercial Exemption |
|---|---|---|
| 1999 | 16.0% | 6.5% |
| 2000 | 23.0% | 9.0% |
| 2001 | 27.5% | 11.0% |
| 2002 | 31.0% | 13.0% |

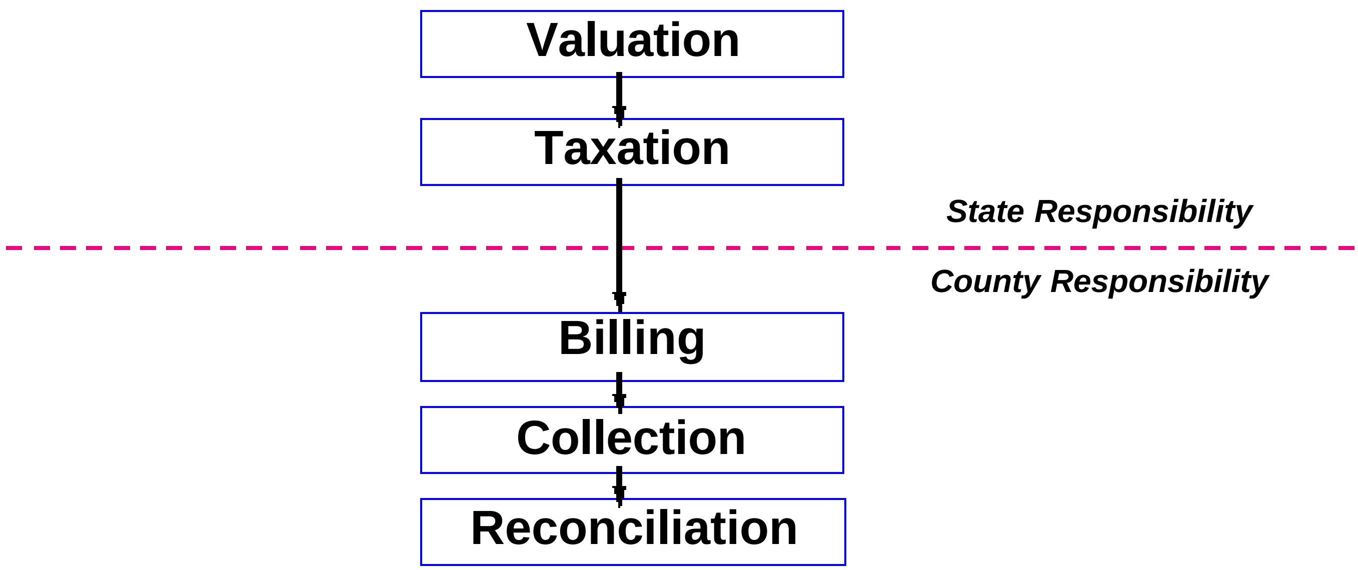
4. Provided additional exemptions for certain qualifying properties by specifying that the value of the land could not exceed 75% of the value of the residential dwelling on the land, with a minimum land value equal to 75% of the average residential dwelling in the state.

SB184 further specified that the Department of Revenue is to administer a six-year reappraisal cycle, with the next cycle to be completed by January 1, 2003. Any increases in value due to reappraisal are to be phased-in over a six-year period.

The rate of tax on the various classes of property and the establishment of the actual classes is a function of the legislature. There are currently twelve classes of property. Local governments determine the mill levy requirements for each taxing jurisdiction. These mill levy requirements include state mills. Using those mill levy determinations, Department of Revenue staff calculate the property tax liability for each property including special district fees and charges.

### FUNCTIONS OF PROPERTY TAXATION

The various functions required to accomplish property taxation are identified below. The valuation and taxation functions are currently the responsibility of the state. The tax billing, collection, and reconciliation functions are a county responsibility.

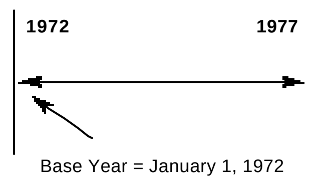



### PROPERTY TAX REAPPRAISAL CYCLES

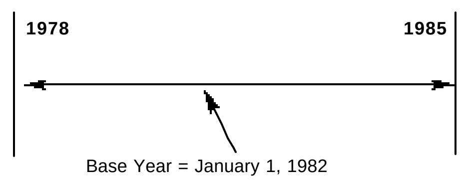
| Cycles | Property Types |
|---|---|
| Beginning in 2003 - 6 Years (January 1, 2003 - December 31, 2008; complete by 2008) | Residential Land & Buildings<br>Commercial & Industrial Land & Buildings<br>Forest Lands<br>Agricultural Land |
| Annual Revaluation | Business Equipment & Livestock<br>Centrally Assessed Properties |

## MONTANA DEPARTMENT OF REVENUE
## REAPPRAISAL CYCLES

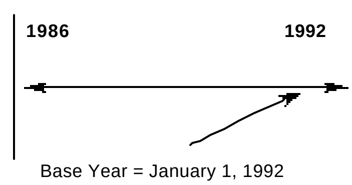
**First Appraisal Cycle**
**1972 through 1977**



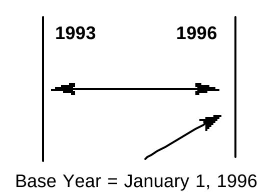

**Second Appraisal Cycle**
**1978 through 1985**



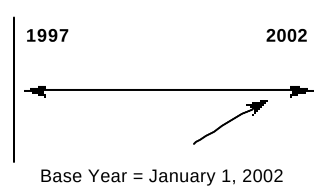

**Third Appraisal Cycle**
**1986 through 1992**



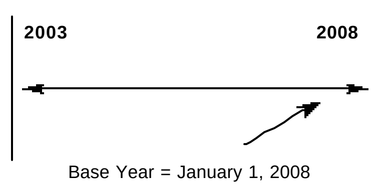

**Fourth Appraisal Cycle**
**1993 through 1996**
*(Agricultural and forest property completed in 1994)*




**Fifth Appraisal Cycle**
**1997 through 2002**




**Sixth Appraisal Cycle**
**2003 through 2008**



## HISTORY OF CLASSIFICATION

### BEGINNING OF PROPERTY CLASSES - 1919

Property in Montana was first placed in statutory tax classes in 1919. Seven classes were created by the Legislature. The fiscal impact was a 3-fold increase in assessed value.

Changes in tax classifications were made over the years including rate changes, movement of property between classes, and exemption of property from taxation. However, the most significant changes occurred in 1977 and 1979.

### BEGINNING OF MARKET VALUE PROCESS - 1977

In 1977, the Legislature adopted a market value standard for valuing property and established rates for taxing the property (taxable value rates). 1977 legislation was designed to maintain effective tax rates for various types of property.

To accommodate a more responsive system, the number of taxation classes was increased from 11 to 18. In addition, two more classes were created in 1977 bringing the total to 20.

### CLASS REDUCTION - 1979

The Legislature was concerned with the large number of classes. It provided for an interim study of classifications and the reasons for grouping types of property. As a result of the study, legislation was introduced and passed in 1979 grouping like property into the same class and reducing the classes from 20 to 10.

### CLASS EXPANSION - 1980S

Through the 1980s the number of classes doubled returning to the 1977 grouping level of 20. Also, the property tax on several properties was replaced by fees.

### CLASS REDUCTION - 1991 AND 1993

The 1991 Legislature provided tax rate reductions to certain types of personal property. It then reduced the number of tax classes to 12 by combining those tax classes with similar property types and tax rates.

The 1993 Legislature reduced the number of tax classes to 11 by combining Class 11 (1 acre homesites) with Class 4 (land and improvements).

### DEREGULATION - RATE REDUCTION - 1999

The 1999 Legislature increased the number of tax classes to 12 by creating Class 13. Class 13 includes telecommunication property and electrical generation property. The move into Class 13 coincides with state deregulation, which follows the national trend of deregulating utilities. Prior to 1999, these utilities had been regulated.

## CLASSES OF PROPERTY AND TAX RATES SUMMARY

The property classification system is as follows (Tax Year 2001 taxable value percentages are in parenthesis):

| | | |
|---|---|---|
| **Class 1** | Net proceeds of mines and mining claims except coal and metal mines | (100%) |
| **Class 2** | Gross proceeds of metal mines | (3%) |
| **Class 3** | Agricultural land | (3.543% 2001, 3.460% 2002) |
| | Nonproductive patented mining claims | (3.543% 2001, 3.460% 2002) |
| | Nonagricultural land 20 acres or more but under 160 acres | (24.220% 2002) |
| **Class 4** | Residential, commercial, and industrial land and improvements | (3.543% 2001, 3.460% 2002) |
| | Golf courses | (1.772% 2001, 1.730% 2002) |
| | Idle agricultural and timber processing property | (3.543% 2001, 3.460% 2002) |
| | Mobile homes | (3.543% 2001, 3.460% 2002) |
| **Class 5** | Air and water pollution control equipment | (3%) |
| | Rural electric and telephone cooperatives | (3%) |
| | Real and personal property of "new industry" | (3%) |
| | Machinery and equipment used in electrolytic reduction facilities | (3%) |
| | Real and personal property of research and development firms | (3%) |
| | Real and personal property used to produce gasohol | (3%) |
| **Class 6** | Livestock | (2% 2001, 1% 2002, and 0% thereafter) |
| | Rental or lease equipment with an acquired cost of less than $15,000 | (2% 2001, 1% 2002, and 0% thereafter) |
| | Machinery and equipment used in canola seed oil processing facilities | (2% 2001, 1% 2002, and 0% thereafter) |
| **Class 7** | Qualifying rural electric associations | (8%) |
| **Class 8** | Business personal property | (3%, possible phase-down beginning in 2003, *MCA 15-6-138*) |
| **Class 9** | Real & personal property of pipelines and the non-electric generating properties of electric utilities | (12%) |
| **Class 10** | Forest land | (0.46% 2001, 0.35% 2002) |
| **Class 11** | Repealed. Sec. 9, Chapter 267, L. 1993 | |
| **Class 12** | Real and personal property of railroads, railroad car companies, and airlines | (4.270% for tax year 2000, recalculated each year *MCA 15-6-145*) |
| **Class 13** | Real & personal property of telecommunication utilities and the electric generating property of electric utilities | (6%) |

**CLASS 1** (*MCA 15-6-131*) **100% of Annual Net Proceeds**

Includes the annual net proceeds of all mines and mining claims except coal and metal mines.
Class one property is taxed at 100% of its annual net proceeds after deducting the expenses specified and allowed.

**CLASS 2** (*MCA 15-6-132*) **3% of Annual Gross Proceeds**

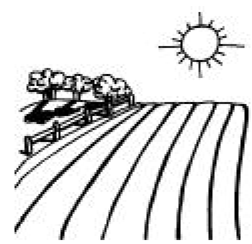
Includes the annual gross proceeds of metal mines.
Class two property is taxed at 3% of its annual gross proceeds.

**CLASS 3** *(MCA 15-6-133)* **(regarding productive capacity) 3.543% in 2001, 3.460% in 2002**

Includes agricultural land and nonproductive patented mining claims.

The property is appraised by the local Department of Revenue office. The productive capacity of the land is based on the ability to produce net farm income.

There are five classifications of agricultural land:



1. Continuously cropped tillable / non-irrigated farmland.
2. Fallow tillable / non-irrigated farmland.
3. Irrigated tillable farmland.
4. Continuously cropped hay land (wild hay).
5. Grazing land.

Given a 300 acre field, tillable fallow/non-irrigated farmland. Average yield is 25 bushels of wheat per acre.

(300 acres @ $187.10 per acre)
$56,1300 = Market Value

$56,1300 x 3.543% = $1,989
Market x Taxable percentage = Taxable Value

$1,989 x 400 mills = $795.60
Taxable x Mills = Taxes

Non-qualified agricultural land is land not used for agricultural purposes between 20 and 160 acres. The land value is based on its productive capacity as average grazing land (grade three). Given a 100 acre parcel that is not eligible for valuation, assessment and taxation as agricultural land, the taxable value is computed by multiplying the land value by seven times the tax rate for agricultural land or 24.810% in 2001 and 24.220% in 2002.

(100 acres @ $38.19 per acre)
$3,819 = Market Value

$38.19 x 24.81% = $947
Market x Taxable percentage = Taxable Value

$947 X 400 mills = $378.80
Taxable x Mills = Taxes

For a detailed explanation on agricultural land valuation, refer to the section starting on page 89.

**CLASS 4** (*MCA 15-6-134*) **(regarding market value) 3.543% in 2001, 3.460% in 2002**

All land and improvements (except those specifically included in another class). The property is appraised by the local Department of Revenue office (except large industrial property). This includes:

- residential, commercial, and industrial land and improvements
- idle agricultural and timber processing property
- mobile homes
- 1-acre homesites located on non-qualified agricultural land and forest land
- golf courses

Market value of land and improvements is calculated using the cost, income and market approaches by the local office of the Department of Revenue. For qualifying low income property owners, an adjustment is made to the taxable value of the property. The adjustment is based on the amount of their annual income. For additional detail, see pages 78, 79 and 80.

Given a residence with market value of $100,000 in tax year 2001, the tax liability is calculated as follows.

$100,000 = market value
Homestead exemption is 27.5% of market value

$100,000 - ($100,000 x 27.5%) = $72,500
Market Value - Homestead exemption = Taxable Market Value

$72,500 x 3.543% = $2,569
Taxable Market Value x Taxable Percentage = Taxable Value

$2,569 x 400 mills = $1,027
Taxable Value x mills = Taxes

**CLASS 5** *(MCA 15-6-135)* **3% of Market Value**

Includes:

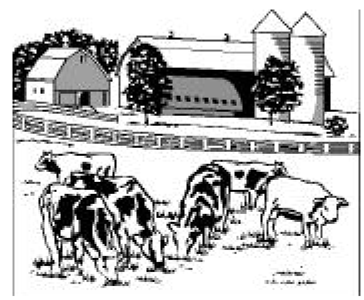
1. Approved air and water pollution control equipment.
2. All property used and owned by rural electric and telephone cooperatives.
3. Real and personal property of "new industry".
4. Machinery and equipment used in electrolytic reduction facilities.
5. All qualifying property owned by a research and development firm.
6. Any property used primarily in the production of gasohol (first three years).
7. Independent telephone and electric cooperatives.

The market value of personal and real property is determined utilizing the same methods for other similar property, but taxable value is calculated at 3%.

**CLASS 6** *(MCA 15-6-136)* **(2% in 2001, 1% in 2002, 0% thereafter)**

Includes:

1. Livestock and other species of domestic animals and wildlife raised in domestication.
2. Rental or lease equipment with an acquired cost of less than $15,000.
3. Machinery and equipment used in a canola seed oil processing facilities.



The market value of livestock is determined by an analysis of average market prices throughout a given area. Livestock also is charged a per capita tax that is used in funding for the Department of Livestock.

The tax for 2001 for a saddle horse is calculated below:

Market Value = $975

$975 x 2% = $19.50
Market Value x Taxable percentage = Taxable Value

$19.50 x 400 mills = $7.80
Taxable x Mills = Taxes

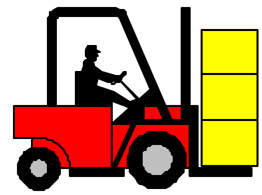
**CLASS 7** *(MCA 15-6-137)* **8% of Market Value**

Qualifying non-centrally assessed rural electric associations.

The market value of personal and real property is determined utilizing the same methods for other similar property, but taxable value is calculated at 8%.

**CLASS 8** *(MCA 15-6-138)* **3% possible phase-down beginning in 2003** (*MCA 15-6-138*)

Class 8 includes the personal property of businesses. If a business owns personal property that, in total, has market value of $5,000 or less, then the personal property is exempt from taxation.



The market value for machinery and equipment is usually determined through use of the "Green Guide" manual or by applying a percent good factor to the F.O.B. or acquired cost.

The tax in 2001 for a forklift acquired in 1994 for $20,000 is calculated below:

Acquired Cost - $20,000
Percent Good = 43%

$20,000 x 43% = $8,600
Acquired Cost x Percent Good = Market Value

$8,600 x 3% = $258
Market Value x Taxable Percentage = Taxable Value

$258 x 400 mills = $103.20
Taxable Value x Mills = Taxes

**CLASS 9** *(MCA 15-6-141)* **12% of Market Value**

All real and personal property owned and used by centrally assessed pipelines and the non-electric-generating property of electric generating utilities. Centrally assessed companies are valued by department appraisers by a method referred to as the "unit approach to value." The appraiser determines a system value for the company, allocates a portion to the state and then apportions values to the counties where the property is located.

Three indicators are typically used to determine the system value of the company:

*Cost, Income and Market.*

The indicators are then correlated to arrive at a system value. The Department of Revenue determines an allocated value to the state (that portion of the correlated system value which belongs to Montana). The department then apportions the allocated Montana value to the counties where the property is located.

The tax for a centrally assessed utility is calculated in the box at the top of the page following.

**Tax Calculation for a Centrally Assessed Company**

| | | |
|---|---|---|
| System Cost Indicator | = | $ 1,100,000 |
| System Income Indicator | = | $ 900,000 |
| System Market Indicator | = | $ 1,000,000 |
| System Correlated Value | = | $ 1,000,000 |
| Montana Allocation | = | 25% |
| Montana Allocated Value | = | $ 250,000 |
| Taxable Percentage | = | 12% |
| Taxable Value | = | $ 30,000 |
| Average Mill | = | 400 |
| Taxes | = | $ 12,000 |

**CLASS 10** *(MCA 15-6-143)* **Forest land (0.46% in 2001, 0.35% in 2002)**

Forest lands (contiguous land of 15 acres or more in one ownership that is capable of producing timber that can be harvested in commercial quantity).

Forest land is valued on the basis of its ability to produce timber, other associated products, and associated agricultural products through an income approach as defined in 15-44-103, MCA. For a more detailed explanation, refer to the section on forest taxation beginning on page 85.

**CLASS 11** *(previously MCA 15-6-144)* **Repealed. (see 9, Chapter 267, L. 1993)**

Combined into Class 4

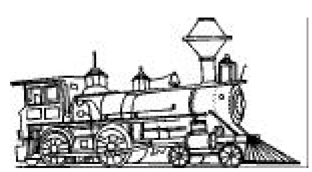
**CLASS 12** *(MCA 15-6-145)* **Taxable Percentage Determined Annually (4.27% in 2000)**

All railroad transportation property as described in the Railroad Revitalization and Regulatory Reform Act (4R Act). All airline transportation property as described in the Tax Equity and Fiscal Responsibility Act (TEFRA). This property is valued by utilizing the same valuation procedures as used for Class 9 property. The taxable percentage (R) for 2000 was 4.27%.

The taxable percentage (R) is determined by finding the effective taxable percentage for all other commercial property in the state.

**R** = (A x M)/B, where

**A** = total statewide taxable value of all commercial property, except class 12 property.



**B** = total statewide market value of all commercial property, except Class 12 property.

**M** = value weighted mean sales assessment ratio for all commercial property.

**CLASS 13** *(MCA 15-6-156)* **6% Market Value**

All property of telecommunication utilities and the electric-generating property of electric utilities. Property in Class 13 is valued under the same methods used to value Class 9 property.

### OTHER TYPES OF PROPERTY

Automobiles and trucks having a capacity of one ton or less are not subject to property class. They are subject to a fee based on age. In addition to the fee, the county may levy up to a 0.7% as a local option vehicle tax. The local option tax is applied to the value of the vehicle.

**Automobile Fees**

| Vehicle Age | Fee |
|---|---|
| 0 - 4 years old | $195 |
| 5 - 10 years old | $ 65 |
| 11 years and older | $ 6 |

The following types of property are subject to a fee in lieu of property tax:

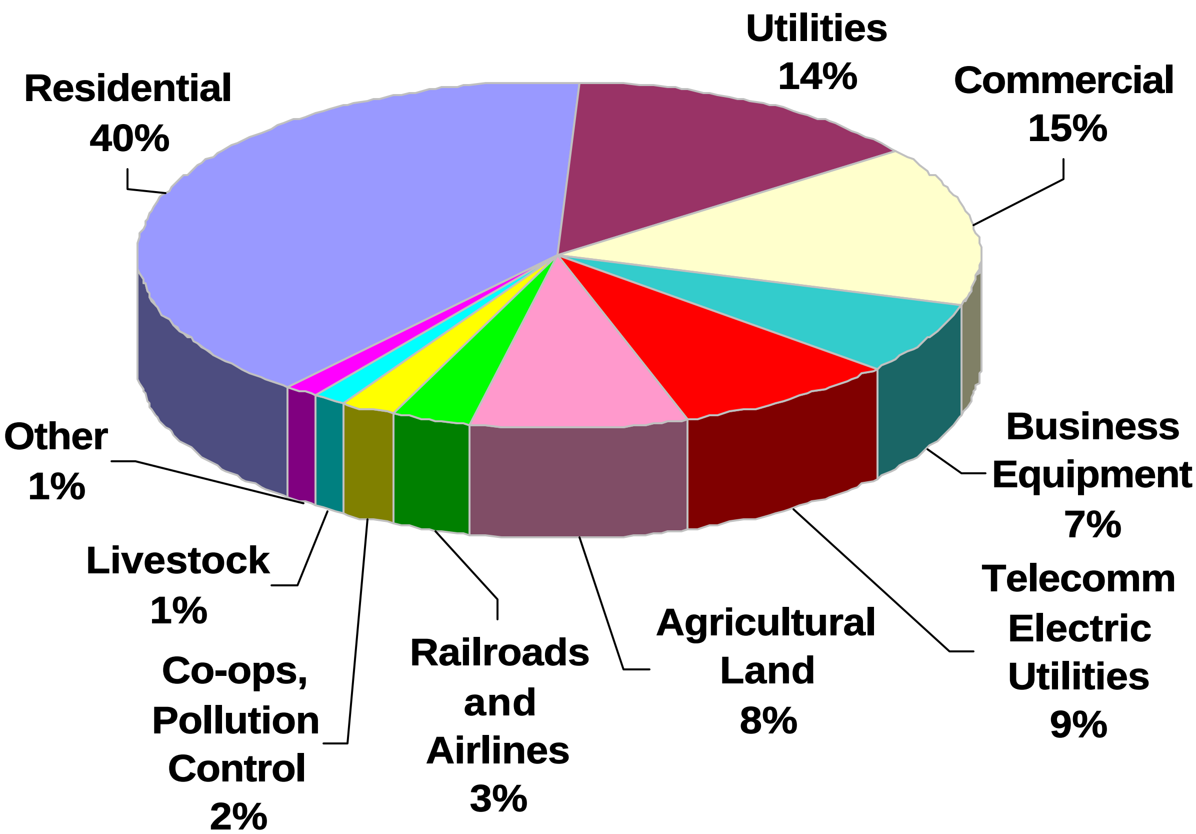
- Campers
- Motor homes
- Boats
- Airplanes (not in Class 9)
- Off road vehicles
- Travel trailers
- Motorcycles
- Trailers
- Large Trucks (over one ton)

## TAXABLE VALUE COMPARISON
## TAX YEAR 1999 WITH TAX YEAR 2000
## FISCAL 2000 WITH FISCAL 2001

| | | Taxable Value | | Change in Taxable Value | |
|---|---|---|---|---|---|
| **Class** | **Description** | **TY 1999** | **TY 2000** | **Dollar** | **Percent** |
| 1 | Net Proceeds | $ 7,026,572 | $ 5,178,965 | $ (1,847,607) | (26.3)% |
| 2 | Gross Proceeds | 8,282,057 | 8,460,975 | 178,918 | 2.2% |
| 3 | Agricultural Land | 139,192,024 | 139,318,879 | 126,855 | 0.1% |
| 4 | Class 4 | | | | |
| | Residential Real | 653,771,296 | 669,015,067 | 15,243,771 | 2.3% |
| | Commercial Real | 240,417,014 | 251,521,120 | 11,104,106 | 4.6% |
| | *Class 4 Subtotal* | *894,188,310* | *920,536,187* | *26,374,877* | *2.95%* |
| 5 | Co-ops, Pollution Control, New Industry | 37,015,035 | 39,008,610 | 1,993,575 | 5.4% |
| 6 | Livestock | 22,570,979 | 17,971,637 | (4,599,342) | (20.4)% |
| 7* | Independent Telephone | 1,881,621 | 155,867 | (1,725,754) | (91.7)% |
| 8** | Business Equipment | 215,748,092 | 112,782,734 | (102,965,358) | (47.7)% |
| 9*** | Pipelines and Other Utilities | 498,030,237 | 230,832,978 | (267,197,259) | (53.7)% |
| 10 | Timber Land | 8,520,090 | 8,708,849 | 188,759 | 2.2% |
| 12 | Railroads and Airlines | 68,192,588 | 49,641,444 | (18,551,144) | (27.2)% |
| 13 | Telecomm. and Electric Generation | 0 | 147,142,750 | 147,142,750 | 0.0% |
| | **Total** | **$ 1,900,647,605** | **$ 1,679,739,875** | **$(220,907,730)** | **(11.6)%** |

*1999 law change moved some property from Class 7 to Class 5 beginning TY2000.
**1999 law change reduced the tax rate on Class 8 from 6% to 3% beginning TY2000.
***1999 law change moved some property from Class 9 to Class 13 beginning TY2000.
**NOTE:** Class 11 was repealed in 1993.

## TAX YEAR 2000 TAX BASE
## PERCENT OF STATEWIDE TAXABLE VALUE BY CLASS
## (FISCAL YEAR 2001)




### TAX YEAR 2000 STATEWIDE TAXABLE VALUES

| Class Description | Class | Taxable Value | Percent of Total |
|---|---|---|---|
| Livestock | 6 | $ 17,971,637 | 1.07% |
| Agricultural Land | 3 | 139,318,879 | 8.29% |
| Residential Real | 4 | 669,015,067 | 39.83% |
| Commercial Real | 4 | 251,521,120 | 14.97% |
| Business Equipment | 8 | 112,782,734 | 6.71% |
| Co-ops & Pollution Control | 5 | 39,008,610 | 2.32% |
| Utilities | 9 | 230,832,978 | 13.74% |
| Railroads and Airlines | 12 | 49,641,444 | 2.96% |
| Telecomm. Electric Utilities | 13 | 147,142,750 | 8.76% |
| Other | 1, 2, 7, 10 | 22,504,656 | 1.34% |
| **Total** | | **$1,679,739,875** | **100.00%** |

# PROPERTY TAX - SUMMARY DATA (continued)

| County | Class 1 | Class 2 | Class 3 | Class 4 Residential | Class 4 Commercial | Class 4 Total | Class 5 |
|---|---|---|---|---|---|---|---|
| Beaverhead | $ - | $ - | $ 2,819,379 | $ 6,493,665 | $ 2,041,607 | $ 8,535,272 | $ 455,760 |
| Big Horn | - | - | 3,599,561 | 3,186,438 | 3,712,000 | 6,898,438 | 692,095 |
| Blaine | - | - | 4,004,911 | 2,083,525 | 516,219 | 2,599,744 | 271,708 |
| Broadwater | 163,694 | 275,233 | 1,127,328 | 2,689,851 | 625,214 | 3,315,065 | 92,703 |
| Carbon | 3,450 | - | 2,283,678 | 10,310,857 | 1,847,074 | 12,157,931 | 205,290 |
| Carter | 2,325,193 | - | 2,131,187 | 576,390 | 60,840 | 637,230 | 84,916 |
| Cascade | - | - | 4,752,856 | 49,933,107 | 22,778,645 | 72,711,752 | 458,236 |
| Chouteau | - | - | 9,173,853 | 3,442,029 | 620,838 | 4,062,867 | 317,848 |
| Custer | - | - | 2,606,242 | 5,201,555 | 2,249,315 | 7,450,870 | 144,818 |
| Daniels | - | - | 2,290,137 | 1,015,195 | 223,548 | 1,238,743 | 183,738 |
| Dawson | - | - | 3,170,213 | 3,848,458 | 1,108,067 | 4,956,525 | 491,228 |
| Deer Lodge | - | - | 393,412 | 4,765,872 | 1,172,512 | 5,938,384 | 130,468 |
| Fallon | - | - | 1,450,441 | 1,181,201 | 388,206 | 1,569,407 | 163,097 |
| Fergus | - | - | 5,600,549 | 6,893,605 | 1,753,683 | 8,647,288 | 360,402 |
| Flathead | - | - | 1,481,487 | 83,528,727 | 26,052,986 | 109,581,713 | 3,825,279 |
| Gallatin | - | - | 2,827,612 | 69,104,932 | 25,574,158 | 94,679,090 | 433,946 |
| Garfield | - | - | 3,251,166 | 713,477 | 75,188 | 788,665 | 191,686 |
| Glacier | - | - | 2,638,255 | 3,207,818 | 1,678,172 | 4,885,990 | 837,508 |
| Golden Valley | - | - | 1,211,852 | 538,149 | 60,970 | 599,119 | 94,581 |
| Granite | - | - | 685,448 | 2,679,980 | 399,437 | 3,079,417 | 24,557 |
| Hill | - | - | 6,238,371 | 8,447,378 | 3,167,670 | 11,615,048 | 530,145 |
| Jefferson | 149,954 | 2,256,976 | 900,604 | 7,831,137 | 1,601,945 | 9,433,082 | 626,407 |
| Judith Basin | - | - | 2,849,726 | 1,427,276 | 206,293 | 1,633,569 | 89,367 |
| Lake | - | - | 1,418,690 | 29,255,122 | 4,459,693 | 33,714,815 | 476,124 |
| Lewis And Clark | - | - | 1,942,453 | 41,068,935 | 18,030,691 | 59,099,626 | 816,796 |
| Liberty | - | - | 3,264,238 | 1,530,440 | 284,756 | 1,815,196 | 129,612 |
| Lincoln | - | - | 257,472 | 13,806,848 | 3,003,690 | 16,810,538 | 1,477,209 |
| Madison | 2,536,674 | 186 | 2,482,950 | 12,176,923 | 2,723,798 | 14,900,721 | 402,894 |
| Mccone | - | - | 3,441,993 | 1,034,602 | 183,553 | 1,218,155 | 349,017 |
| Meagher | - | 2,150 | 1,589,228 | 1,579,964 | 268,428 | 1,848,392 | 17,376 |
| Mineral | - | - | 86,817 | 2,544,134 | 787,882 | 3,332,016 | 36,383 |
| Missoula | - | - | 642,434 | 73,697,698 | 39,384,669 | 113,082,367 | 1,306,203 |
| Musselshell | - | - | 1,702,142 | 2,159,031 | 388,305 | 2,547,336 | 376,030 |
| Park | - | - | 1,715,443 | 14,473,446 | 4,312,070 | 18,785,516 | 350,142 |
| Petroleum | - | - | 988,211 | 281,929 | 25,930 | 307,859 | 115,519 |
| Phillips | - | - | 3,707,746 | 2,114,948 | 680,107 | 2,795,055 | 280,783 |
| Pondera | - | - | 3,953,788 | 3,263,078 | 1,069,948 | 4,333,026 | 342,583 |
| Powder River | - | - | 1,974,548 | 862,334 | 137,354 | 999,688 | 266,000 |
| Powell | - | - | 1,217,299 | 3,545,980 | 784,992 | 4,330,972 | 207,363 |
| Prairie | - | - | 1,168,166 | 470,701 | 86,467 | 557,168 | 99,471 |
| Ravalli | - | - | 1,100,870 | 34,113,556 | 6,576,128 | 40,689,684 | 518,267 |
| Richland | - | - | 3,613,254 | 4,549,102 | 1,889,927 | 6,439,029 | 646,982 |
| Roosevelt | - | - | 3,508,730 | 2,389,380 | 967,645 | 3,357,025 | 255,977 |
| Rosebud | - | - | 3,239,086 | 2,813,670 | 2,138,659 | 4,952,329 | 8,655,687 |
| Sanders | - | - | 676,104 | 7,628,420 | 1,447,335 | 9,075,755 | 194,801 |
| Sheridan | - | - | 3,329,294 | 1,927,966 | 591,942 | 2,519,908 | 212,245 |
| Silver Bow | - | 1,699,140 | 379,755 | 19,824,652 | 12,286,293 | 32,110,945 | 712,100 |
| Stillwater | - | 4,227,290 | 2,334,655 | 6,897,146 | 1,801,358 | 8,698,504 | 347,625 |
| Sweet Grass | - | - | 1,489,199 | 3,020,145 | 739,719 | 3,759,864 | 269,849 |
| Teton | - | - | 4,474,440 | 3,751,601 | 833,841 | 4,585,442 | 654,197 |
| Toole | - | - | 4,331,627 | 2,749,179 | 1,954,547 | 4,703,726 | 326,306 |
| Treasure | - | - | 891,891 | 350,450 | 66,440 | 416,890 | 99,476 |
| Valley | - | - | 4,590,826 | 4,140,297 | 1,457,461 | 5,597,758 | 339,242 |
| Wheatland | - | - | 1,450,610 | 1,061,556 | 168,415 | 1,229,971 | 32,068 |
| Wibaux | - | - | 1,107,602 | 464,460 | 83,568 | 548,028 | 105,317 |
| Yellowstone | - | - | 3,759,050 | 90,366,752 | 43,990,922 | 134,357,674 | 7,883,183 |
| **Total** | **$ 5,178,965** | **$ 8,460,975** | **$ 139,318,879** | **$ 669,015,067** | **$ 251,521,120** | **$ 920,536,187** | **$ 39,008,610** |

## 68 PROPERTY TAX - SUMMARY DATA (continued)

| County | Class 6 | Class 7 | Class 8 | Class 9 | Class 10 | Class 12 | Class 13 | Grand Total |
|---|---|---|---|---|---|---|---|---|
| Beaverhead | $ 928,957 | $ 172 | $ 1,514,375 | $ 1,400,473 | $ 33,837 | $ 236,064 | $ 229,627 | $ 16,153,916 |
| Big Horn | 640,175 | - | 5,096,299 | 3,203,560 | 50,374 | 944,735 | 229,199 | 21,354,436 |
| Blaine | 489,542 | - | 891,844 | 2,777,488 | 1,984 | 862,962 | 179,424 | 12,079,607 |
| Broadwater | 180,990 | - | 817,863 | 3,041,853 | 46,678 | 613,853 | 579,059 | 10,254,319 |
| Carbon | 366,433 | - | 740,838 | 7,002,909 | 8,697 | 489,200 | 496,316 | 23,754,742 |
| Carter | 503,152 | - | 406,163 | 705,370 | 14,396 | - | 1,042 | 6,808,649 |
| Cascade | 525,082 | 148,254 | 4,829,026 | 9,601,578 | 64,345 | 2,288,976 | 13,389,206 | 108,769,311 |
| Chouteau | 329,515 | - | 1,617,318 | 6,128,791 | 11,126 | 367,629 | 304,296 | 22,313,243 |
| Custer | 478,105 | - | 814,293 | 1,320,442 | 25,159 | 805,704 | 743,519 | 14,389,152 |
| Daniels | 130,714 | - | 556,986 | 86,106 | - | 211,508 | 311,576 | 5,009,508 |
| Dawson | 286,757 | - | 962,261 | 2,690,615 | - | 1,657,980 | 890,023 | 15,105,602 |
| Deer Lodge | 53,971 | - | 287,943 | 1,607,940 | 127,538 | 24,253 | 348,067 | 8,911,976 |
| Fallon | 288,612 | - | 1,800,781 | 5,358,903 | 399 | 361,693 | 12,034 | 11,005,367 |
| Fergus | 806,528 | - | 1,473,613 | 3,591,230 | 85,288 | 310,755 | 499,553 | 21,375,206 |
| Flathead | 220,166 | - | 5,994,394 | 4,975,139 | 1,538,260 | 2,351,659 | 3,915,947 | 133,884,044 |
| Gallatin | 446,877 | - | 5,299,827 | 9,632,647 | 319,519 | 1,717,002 | 3,198,607 | 118,555,127 |
| Garfield | 451,723 | - | 344,417 | - | 304 | - | 2,416 | 5,030,377 |
| Glacier | 204,218 | 7,441 | 982,919 | 6,850,924 | 4,735 | 1,125,275 | 682,502 | 18,219,767 |
| Golden Valley | 152,335 | - | 134,071 | 3,079,037 | 7,686 | 341,336 | 67,385 | 5,687,402 |
| Granite | 185,933 | - | 387,516 | 2,728,772 | 320,121 | 746,437 | 435,764 | 8,593,965 |
| Hill | 213,346 | - | 1,647,712 | 5,599,052 | 4,192 | 2,528,512 | 356,616 | 28,732,994 |
| Jefferson | 179,605 | - | 2,135,743 | 3,620,864 | 47,374 | 690,846 | 572,779 | 20,614,234 |
| Judith Basin | 411,408 | - | 442,741 | 5,008,762 | 10,797 | 795,359 | 431,292 | 11,673,021 |
| Lake | 380,266 | - | 2,356,980 | 350,823 | 317,475 | 573,866 | 3,383,342 | 42,972,381 |
| Lewis And Clark | 321,007 | - | 3,369,919 | 9,192,277 | 242,836 | 1,290,414 | 6,336,321 | 82,611,649 |
| Liberty | 116,621 | - | 717,580 | 689,549 | - | 437,285 | 2,312 | 7,172,393 |
| Lincoln | 75,524 | - | 1,487,558 | - | 1,399,724 | 2,050,930 | 985,235 | 24,544,190 |
| Madison | 577,108 | - | 1,535,960 | 2,768,187 | 129,035 | 524,911 | 228,197 | 26,086,823 |
| Mccone | 266,255 | - | 621,686 | 152,025 | - | 132,763 | 6,815 | 6,188,709 |
| Meagher | 332,465 | - | 312,024 | 3,601,336 | 184,257 | - | 207,018 | 8,094,246 |
| Mineral | 17,624 | - | 238,213 | 2,912,964 | 236,227 | 722,736 | 367,808 | 7,950,788 |
| Missoula | 193,679 | - | 8,836,848 | 12,055,267 | 1,253,625 | 2,433,796 | 4,820,138 | 144,624,357 |
| Musselshell | 278,826 | - | 382,100 | 1,489,844 | 102,676 | - | 2,960 | 6,881,914 |
| Park | 361,403 | - | 1,093,707 | 4,290,800 | 247,924 | 691,546 | 930,303 | 28,466,784 |
| Petroleum | 228,322 | - | 126,343 | - | 1,437 | - | - | 1,767,691 |
| Phillips | 565,268 | - | 876,760 | 4,811,827 | 867 | 860,366 | 288,487 | 14,187,159 |
| Pondera | 217,867 | - | 1,011,718 | 2,887,340 | 1,981 | 527,345 | 253,800 | 13,529,448 |
| Powder River | 522,749 | - | 404,355 | 237,004 | 11,569 | - | 78 | 4,415,991 |
| Powell | 297,768 | - | 463,715 | 3,324,804 | 520,711 | 717,779 | 626,314 | 11,706,725 |
| Prairie | 242,221 | - | 236,490 | 306,971 | 290 | 780,551 | 211,320 | 3,602,648 |
| Ravalli | 368,684 | - | 1,414,486 | 2,879,987 | 201,343 | 616,493 | 1,236,679 | 49,026,493 |
| Richland | 261,589 | - | 2,035,350 | 2,089,334 | - | 429,286 | 1,001,216 | 16,516,040 |
| Roosevelt | 183,530 | - | 1,166,134 | 12,388,476 | - | 1,776,727 | 555,463 | 23,192,062 |
| Rosebud | 497,752 | - | 3,725,709 | 4,975,536 | 29,938 | 1,100,248 | 73,458,815 | 100,635,100 |
| Sanders | 163,643 | - | 619,865 | 3,157,619 | 912,812 | 1,937,672 | 10,396,951 | 27,135,222 |
| Sheridan | 161,123 | - | 1,230,302 | 400,951 | - | 537,008 | 154,802 | 8,545,633 |
| Silver Bow | 59,068 | - | 12,951,861 | 8,523,461 | 26,086 | 478,947 | 1,573,509 | 58,514,872 |
| Stillwater | 346,686 | - | 4,156,453 | 7,401,685 | 44,439 | 524,111 | 623,996 | 28,705,444 |
| Sweet Grass | 348,289 | - | 1,226,003 | 1,487,797 | 57,064 | 517,683 | 376,851 | 9,532,599 |
| Teton | 367,264 | - | 891,230 | 1,818,320 | 23,447 | 719,503 | 229,915 | 13,763,758 |
| Toole | 141,626 | - | 1,145,929 | 2,512,223 | - | 1,264,937 | 146,511 | 14,572,885 |
| Treasure | 164,572 | - | 197,206 | 1,641,352 | 9,404 | 689,313 | 196,013 | 4,306,117 |
| Valley | 436,008 | - | 1,021,614 | 10,727,643 | - | 1,271,906 | 600,855 | 24,585,852 |
| Wheatland | 283,771 | - | 286,032 | 6,505,417 | 9,126 | 262,495 | 409,010 | 10,468,500 |
| Wibaux | 147,759 | - | 316,378 | 428,180 | - | 272,916 | 105,523 | 3,031,703 |
| Yellowstone | 571,156 | - | 17,147,283 | 24,811,524 | 21,747 | 6,026,173 | 9,549,944 | 204,127,734 |
| **Total** | **$ 17,971,637** | **$ 155,867** | **$ 112,782,734** | **$ 230,832,978** | **$ 8,708,849** | **$ 49,641,444** | **$ 147,142,750** | **$ 1,679,739,875** |

## TAXABLE VALUE AND ESTIMATED PROPERTY TAXES PAID BY PROPERTY CLASS
## TAX YEAR 2000 (Fiscal Year 2001)

| Class | Description | Taxable Value | Estimated Property Taxes Paid | % of Total Taxes |
|---|---|---|---|---|
| 1 | Mine Net Proceeds | $ 5,178,965 | $ 1,723,001 | 0.2% |
| 2 | Gross Proceeds Metal Mines | 8,460,975 | 3,216,216 | 0.4% |
| 3 | Agricultural Land | 139,318,879 | 53,543,644 | 6.7% |
| 4 | Residential Land & Improvements | 669,015,067 | 305,600,030 | 38.4% |
| | Commercial Land & Improvements | 251,521,120 | 125,760,841 | 15.8% |
| | SIDs (Special Improvement Districts) | | 71,641,879 | 9.0% |
| | *Subtotal Class 4* | *$ 920,536,187* | *$ 503,002,750* | *63.2%* |
| 5 | Co-ops, Pollution Control Equipment | $ 39,008,610 | $ 14,256,401 | 1.8% |
| 6 | Livestock | 17,971,637 | 6,811,026 | 0.9% |
| 7 | Non-Centrally Assessed Public Utilities | 155,867 | 79,817 | 0.0% |
| 8 | Business Personal Property | 112,782,734 | 48,361,297 | 6.1% |
| 9 | Non-Elec General Property of Elec Utilities | 230,832,978 | 93,875,141 | 11.8% |
| 10 | Timber Land | 8,708,849 | 3,460,804 | 0.4% |
| 12 | Railroad and Airline Property | 49,641,444 | 20,207,186 | 2.5% |
| 13 | Telecommunications & Electric Property | 147,142,750 | 47,402,896 | 6.0% |
| | **Total** | **$ 1,679,739,875** | **$ 795,940,180** | **100.0%** |

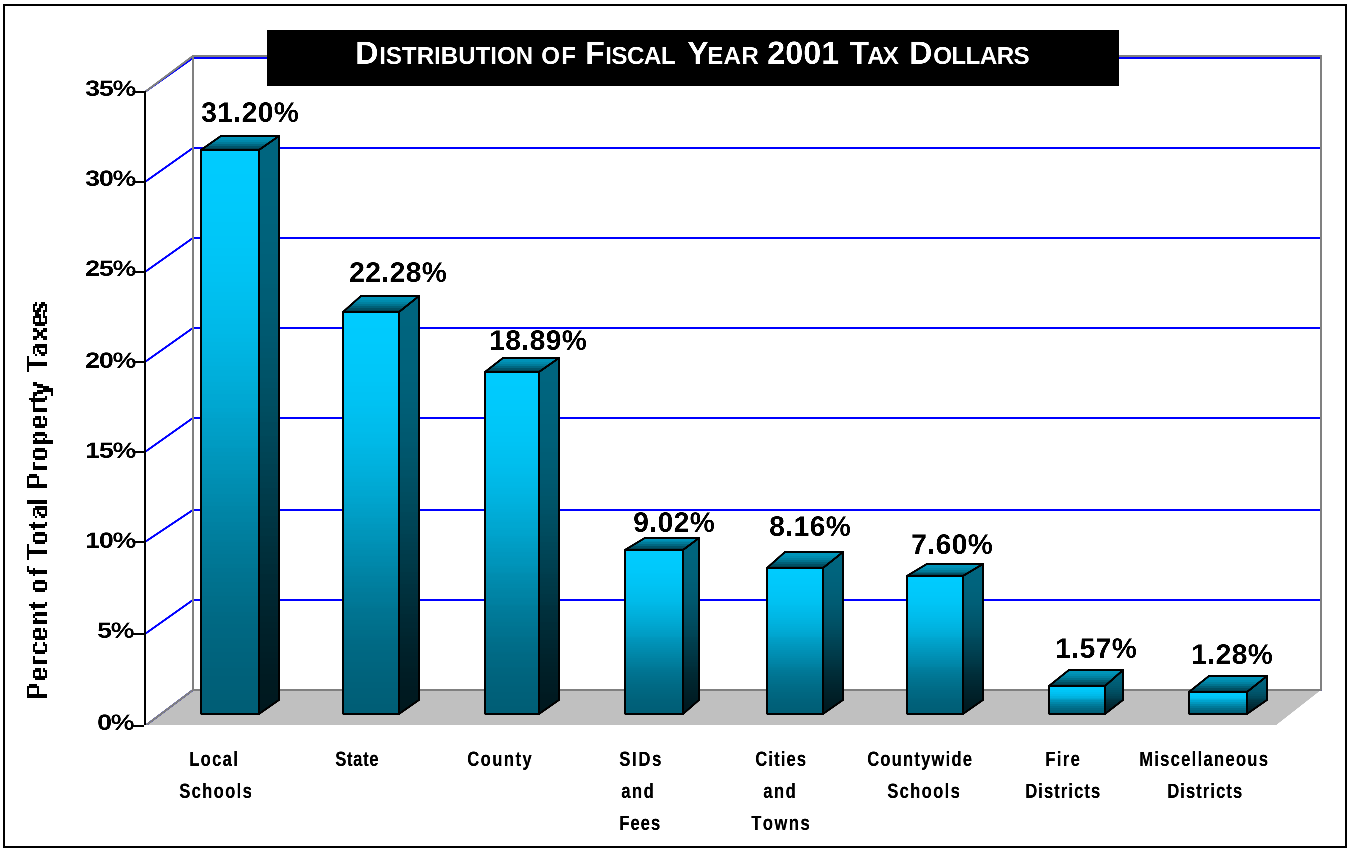
The values listed in the above table represent estimates of property taxes paid, not actual property taxes paid. Because these values are estimates, the bottom line total for property taxes and fees of $795,940,180 does not match the total for property taxes and fees paid of $794,598,177 for fiscal year 2001 found on page 71. The values on page 71 are compiled from a report that lists the total amount of property taxes and fees assessed by each taxing jurisdiction in each county. The report only provides totals and does not provide a detailed breakdown by property class. Hence the amount of property taxes paid by each property class must be estimated. The estimates result in a total that is only 0.17% different from the actual total and have proven very reliable in property tax analysis.

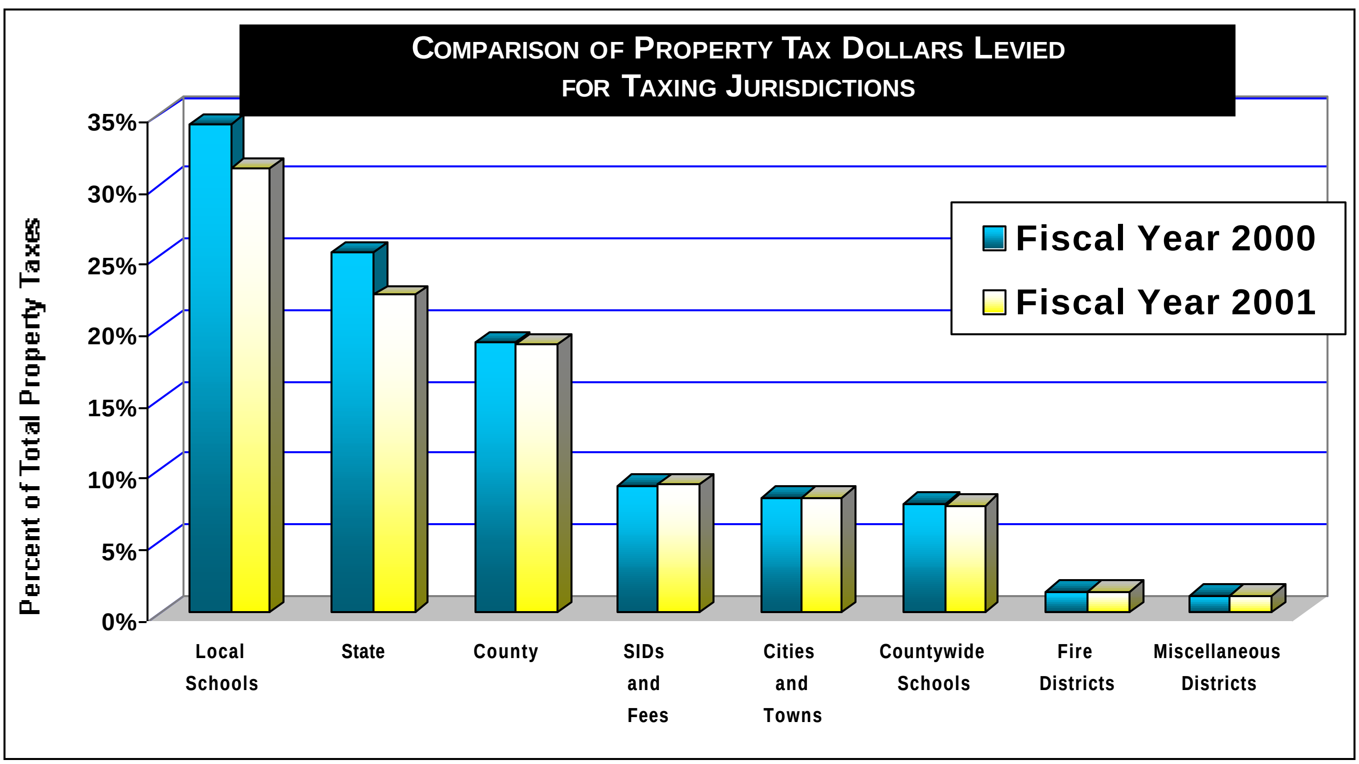
## RESIDENTIAL PROPERTY TAX RATES

**Largest City in Each State - Northwest United States, 1998**

| Rank | City | State | Tax Per $100 Market Value |
|---|---|---|---|
| 1 | Sioux Falls | South Dakota | $ 2.37 |
| 2 | Fargo | North Dakota | $ 2.02 |
| 3 | Boise | Idaho | $ 1.83 |
| 4 | Portland | Oregon | $ 1.52 |
| 5 | Salt Lake City | Utah | $ 1.40 |
| 6 | **Billings** | **Montana** | **$ 1.29** |
| 7 | Seattle | Washington | $ 1.19 |
| 8 | Cheyenne | Wyoming | $ 0.69 |

***SOURCE:*** *1998 Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*


DISTRIBUTION OF FISCAL YEAR 2001 TAX DOLLARS
Percent of Total Property Taxes
35%
30%
25%
20%
15%
10%
5%
0%
31.20%
22.28%
18.89%
9.02%
8.16%
7.60%
1.57%
1.28%
Local Schools
State
County
SIDs and Fees
Cities and Towns
Countywide Schools
Fire Districts
Miscellaneous Districts


COMPARISON OF PROPERTY TAX DOLLARS LEVIED FOR TAXING JURISDICTIONS
Percent of Total Property Taxes
35%
30%
25%
20%
15%
10%
5%
0%
Fiscal Year 2000
Fiscal Year 2001
Local Schools
State
County
SIDs and Fees
Cities and Towns
Countywide Schools
Fire Districts
Miscellaneous Districts

## PROPERTY TAXES LEVIED IN MONTANA - 1999 AND 2000

| | Tax Year 1999 (Fiscal Year 2000) | Tax Year 2000 (Fiscal Year 2001) |
|---|---|---|
| **Property Valuation** | | |
| Market Valuation | $ 40,638,187,730 | $ 42,432,460,514 |
| Taxable Valuation Statewide Total | $ 1,900,647,605 | $ 1,679,739,875 |
| Taxable Valuation in Cities/Towns | $ 715,318,205 | $ 608,942,588 |
| **State** | | |
| University | $ 11,482,683 | $ 10,080,822 |
| Vo-Tech (General Fund) | 981,022 | 893,486 |
| State General Fund | 181,809,147 | 159,613,015 |
| State Assumption of Welfare | 7,026,916 | 6,464,832 |
| State Property Taxes | $ 201,299,768 | $ 177,052,155 |
| **County** | | |
| General | $ 44,931,578 | $ 45,226,035 |
| Road | 19,242,649 | 18,411,096 |
| Bridge | 6,828,167 | 6,730,035 |
| Poor | 4,414,753 | 3,998,103 |
| Bond Interest | 196,116 | 158,034 |
| County Fair | 2,390,216 | 2,340,943 |
| Library | 4,234,839 | 4,052,707 |
| Agri. Extension | 2,100,192 | 1,988,487 |
| Planning | 696,410 | 908,573 |
| Health and Sanitation | 3,728,537 | 3,935,882 |
| Hospital | 1,480,383 | 1,413,724 |
| Airport | 1,096,283 | 1,035,048 |
| District Court | 9,186,984 | 8,677,606 |
| Weed Control | 2,448,493 | 2,896,406 |
| Senior Citizens | 1,288,213 | 1,281,784 |
| Other | 46,780,381 | 47,016,413 |
| County Property Taxes | $ 151,044,194 | $ 150,070,876 |
| **Local Schools** | | |
| Elementary | $ 146,876,926 | $ 134,101,896 |
| K-12 and High School | 122,530,095 | 110,172,284 |
| Jr. College | 3,411,639 | 3,656,483 |
| Local School Property Taxes | $ 272,818,660 | $ 247,930,663 |
| **County Wide Schools** | $ 61,430,968 | $ 60,387,524 |
| **Cities & Towns** | 64,580,025 | 64,802,819 |
| **Fire Districts** | 12,442,649 | 12,513,983 |
| **Miscellaneous Districts** | 10,349,868 | 10,198,278 |
| **Total Property Tax** | **773,966,132** | **722,956,298** |
| **SIDs and Fees** | 71,104,931 | 71,641,879 |
| **Total Property Taxes and Fees** | **$ 845,071,063** | **$ 794,598,177** |

## BUSINESS PROPERTY TAX INCENTIVES

Property tax incentives can generally be divided into two categories: property tax abatements and local option property tax exemptions. Property tax abatements result in a reduction in the taxable value of the property. This reduction is accomplished by directly reducing the taxable value of property or by applying a reduced tax rate to the property's assessed value. Local option property tax exemptions exclude part or all of the entire value of property from taxation. A third type of incentive available is the suspension and cancellation of delinquent property taxes to facilitate the purchase and continued operation of a business.

## PROPERTY TAX ABATEMENTS

**New or Expanding Industries (Local Option)**
If approved by the local governing body, property of certain new or expanding industries is eligible for reduced taxable valuation (up to 50% of their taxable value for the first five years) during the first nine years after construction or expansion. *(MCA 15-24-14)*

**Remodeling/Expansion of Existing Buildings (Local Option)**
If approved by the local governing body, remodeling, reconstruction or expansion of existing buildings or structures may qualify for a reduced tax rate for five years following construction. *(MCA 15-24-15)*

**Expanding "Value-Added" Machinery and Equipment (State Determined, Local Option)**
If approved by the local governing bodies, an existing value added industry that expands to include value-added equipment is entitled to receive a decrease in the tax rate on value-added machinery and equipment.

**Canola Seed Oil Processing Equipment (State Determined)**
Machinery used in canola seed oil processing is eligible for a taxable valuation rate of 2% in tax year 2001, 1% in tax year 2002, and 0.0% thereafter.

## LOCAL OPTION PROPERTY TAX EXEMPTIONS

**Exemption for Business Incubators (Local Option)**
If approved by the local governing body, a business incubator owned or leased and operated by a local economic development organization is eligible for an exemption from property taxes. *(MCA 15-24-18)*

**Industrial Parks (Local Option)**
If approved by the local governing body, an industrial park owned and operated by a local economic development organization or port authority is eligible for an exemption from property taxes. *(MCA 15-24-19)*

**Suspension, Cancellation of Delinquent Taxes (Local Option)**
If approved by the local governing body, delinquent property taxes on commercial property may be suspended to facilitate the purchase and continued operation of a business utilizing the commercial property. *(MCA 15-24-17)*

### BUSINESS PROPERTY TAX EXEMPTIONS

| Type of Exemption | Test to Qualify |
|---|---|
| Government (Federal, State, Local, School, etc.) | Ownership |
| Irrigation Districts | Organized into Montana Law and Nonprofit Ownership |
| Religious | Ownership & Use |
| Municipal Organizations | Ownership |
| Agricultural & Horticultural | Exclusive Use |
| Public Libraries | Ownership |
| Educational | Exclusive Use |
| Rural Fire Districts, etc. | Ownership |
| Nonprofit Health Care Facilities | Exclusive Use & Nonprofit & Health Care License |
| Space Vehicles | Ownership & Use |
| Improvements Made to Remove Barriers to Persons with Disabilities | Purpose and Use of |
| 100% Disabled Veteran Residence | Owned and Occupied and Meets Income Requirments |
| Personal Property of an Industrial Dairy and/or Milk Processor | Ownership, Use, and Size of Dairy |
| Vehicle of Certain Health Care Professionals | Qualifying Under Law |
| Intangible Personal Property | Meeting Definition in Law |
| Low Income Housing | Meeting Criterion in Law |
| Cemeteries | Ownership, Use & Nonprofit |
| Institutions of Purely Public Charity | Ownership & Use |
| Property Leased from a Federal, State, or Local Government by Institutions of Purely Public Charity & Used for those Purposes. | Lease & Use |
| Public Museums | Nonprofit & Use |
| Art Galleries | Nonprofit & Use |
| Zoos | Nonprofit & Use |
| Observatories | Nonprofit & Use |

| Type of Exemption | Test to Qualify |
|---|---|
| Household Goods & Furniture | Ownership & Use |
| Truck Canopy Cover or Topper | Less Than 300 Lbs & No Accommodations Attached |
| Bicycle | Ownership & Use |
| Corporation Organized to Furnish Potable Water to its Members (Other Than Ag Irrigation) | Nonprofit & Ownership |
| Right of Entry | None |
| Corporations Providing Care for the Developmentally Disabled, Mentally Ill, or Vocationally Handicapped | Ownership, Use & Nonprofit |
| Corporations Operating Facilities for the Care of the Retired, Aged, or Chronically Ill | Ownership, Use & Nonprofit |
| Farm Buildings | Value Less Than $500 |
| Agricultural Implements | Value Less Than $100 |
| Facilities Used for Training, Practice, or Competition in Int'l. Sports & Athletic Events | Nonprofit, Use & Ownership |
| Hand Held Tools | Use & Exempt First $15,000 Market Value |
| Harness, Saddlery, & Tack | None |
| Title Plant | Ownership |
| Nonfossil Energy Generation of Low Emission Wood or Biomass Combustion Devices | Exempt for Ten Years Following Installation $100,000 Exempt for Multifamily Residences, $20,000 Single Family Residence |
| Veteran's Clubhouses | Nonprofit, Use & Ownership |
| Freeport Merchandise & Business Inventory | Use |
| State Water Conservation Projects | Ownership & Use |
| Irrigation & Drainage Facilities | Use |
| Nonprocessed Agricultural Products | Ownership & Use |
| Beet Implements | Use |
| Community Services Buildings | Nonprofit, Use, Ownership & Land up to Three Acres |
| Down-hole Equipment in Oil & Gas Wells | None |
| Motion Picture & Television Commercial Property | Use & Can Not be in the State for More than 180 Consecutive Days |

## SPECIAL PROPERTY TAX APPLICATIONS FOR RESIDENTIAL PROPERTY

| Type of Exemption | Test to Qualify |
|---|---|
| **Disabled/Deceased Veterans' Residences** | Applies to residence and lot owned *(MCA 15-6-211)* and occupied by 100% service connected disabled veteran or veteran's spouse if deceased - subject to income limits |
| **Class 4 Property Tax Assistance** | Applies to first $100,000 of market *(MCA 15-6-134(1)(C))* value, land can not exceed five acres, house must be occupied for seven months a year as the primary residence, subject to income limitations, and the amount of reduction is based on a graduated scale that is based on income increments. |
| **Elderly Home Owner/Renter Credit** | A credit against Montana income tax *(MCA 15-30-1)* liability is allowed for qualifying elderly homeowners and renters. The credit is provided to help offset any property tax paid. |

## DECEASED/DISABLED VETERAN'S EXEMPTION

Residential property of certain disabled veterans, and the spouses of deceased veterans, is exempt from property taxation.

**Deceased Veterans**
A residence, including the lot on which it is built, that is owned by the spouse of a veteran is exempt from property taxation provided the veteran was killed on active duty, or died as the result of a service-connected disability.

**Disabled Veterans**
A residence, including the lot on which it is built, that is owned by a disabled veteran is exempt from property taxation provided that the veteran:

1. has been honorably discharged from active service in any branch of the armed forces;
2. is rated 100% disabled due to a service-connected disability by the U.S. Department of Veterans Affairs; and
3. has annual adjusted gross income, as reported on the latest federal income tax return, of less than $30,000 ($36,000 if married).

## LOW INCOME PROPERTY TAX ASSISTANCE PROGRAM - FORM PPB-8

Montana property owners can have their property taxes reduced if they meet certain qualifications. The form to receive the credit is filed with the local Department of Revenue office in the county where the property is located.

**Ownership:** The home or mobile home must be owned or under contract for deed.

**Residency:** The owner must occupy the dwelling for at least seven months as their primary residence.

**Income:** The owner's total income, including otherwise tax exempt income, must not exceed $16,457 for a single person or $21,942 for a married couple. Social Security income paid to a nursing home is not considered income.

**Items included in Income to determine eligibility for Low Income status:**

1. Wages, fees, bonuses, capital gains, ordinary income, interest, and dividends;
2. Total income from business, partnerships, rents, royalties;
3. Payments and interest on federal, state, county, and municipal bonds;
4. Alimony, public assistance, unemployment, and tax refunds; and
5. All pensions and annuities, including railroad retirement, PERS, veteran's disability and social security.

**Applications:** The owner must apply for the reduction before March 15 of each year.

**Mailing:** The PPB-8 form* must be mailed or delivered to the local Department of Revenue office.

**Questions:** Telephone your local Department of Revenue office or the Department of Revenue office in Helena at 444-6900.

**Computation:** The reduction is determined using the property owner's total, income including spousal income. The tax rate applied to the market value of the property is reduced depending on the owner's income.

**2001 TAXABLE VALUE RATE TABLE FOR LOW INCOME PROPERTY TAX ASSISTANCE REDUCTION**

| Single Person | Married Couple | Percent Multiplier |
|---|---|---|
| $ 0 - $ 6,583 | $ 0 - $ 8,777 | 20% |
| 6,584 - 10,094 | 8,778 - 15,360 | 50% |
| 10,095 - 16,457 | 15,361 - 21,942 | 70% |

**EXAMPLE: DETERMINATION OF PROPERTY TAX**

Market Value (appraised value) of the home = $100,000
Income for a married couple living in the home = $6,580

**Without Reduction**

$100,000 (market value) - $27,500 (homestead @ 27.5%) = $72,500 (taxable market value)
$72,500 (market value) x 3.543% = $2,569 (taxable value)
$2,569 (taxable) x .400 (local mill levy) = $1,028 (property tax)

**With Reduction**

$100,000 (market value) - $27,500 (homestead @ 27.5%) = $72,500 (taxable market value)
$72,500 (market value) x (3.543% X 20% = .7086%) (see table) = $514 (taxable)
$514 (taxable) x .400 (local mill levy) = $205.50 (property tax)

**A copy of the PPB-8 form is in the Appendix of this booklet.*

## LOW INCOME PROPERTY TAX ASSISTANCE APPLICATION

| County | Applications Approved | County | Applications Approved |
|---|---|---|---|
| Beaverhead | 133 | McCone | 15 |
| Big Horn | 52 | Meagher | 48 |
| Blaine | 43 | Mineral | 108 |
| Broadwater | 75 | Missoula | 672 |
| Carbon | 156 | Musselshell | 63 |
| Carter | 23 | Park | 165 |
| Cascade | 624 | Petroleum | 6 |
| Chouteau | 40 | Phillips | 106 |
| Custer | 202 | Pondera | 68 |
| Daniels | 28 | Powder River | 15 |
| Dawson | 81 | Powell | 123 |
| Deer Lodge | 170 | Prairie | 41 |
| Fallon | 31 | Ravalli | 702 |
| Fergus | 142 | Richland | 109 |
| Flathead | 857 | Roosevelt | 62 |
| Gallatin | 181 | Rosebud | 47 |
| Garfield | 6 | Sanders | 264 |
| Glacier | 95 | Sheridan | 50 |
| Golden Valley | 19 | Silver Bow | 702 |
| Granite | 51 | Stillwater | 92 |
| Hill | 203 | Sweet Grass | 57 |
| Jefferson | 102 | Teton | 82 |
| Judith Basin | 16 | Toole | 52 |
| Lake | 404 | Treasure | 7 |
| Lewis and Clark | 319 | Valley | 81 |
| Liberty | 0 | Wheatland | 47 |
| Lincoln | 527 | Wibaux | 6 |
| Madison | 63 | Yellowstone | 1,082 |

**TOTAL APPLICATIONS APPROVED IN TAX YEAR 2000: 9,515**

## ELDERLY HOME OWNER/RENTER CREDIT
## (CIRCUIT BREAKER)

*(MCA 15-30-171 through 15-30-179)*

### HOW THE PROGRAM WORKS

The circuit breaker provides tax relief to elderly homeowners and renters based on the relationship between the homeowner's property tax and income. (In the case of renters, the property tax equivalent is defined to be 15% of the gross rent paid during the tax year.)

Due to the inter-relationship between property tax and income levels, certain homeowners/renters do not benefit from this program. Generally, these are individuals whose property values or rents are low in relation to their income. To understand this fully, it is necessary to understand how the circuit breaker program works. This section discusses the credit as it applies to a homeowner, but the same principles also apply to renters.

The amount of credit allowed is equal to the amount of property tax paid less a deduction:

**Credit = Property Tax Paid - Deduction**

The amount of the deduction is equal to a specific percentage of "household income". These percentages are set in statute, and increase as household income increases in accordance with the following schedule:

| HOUSEHOLD INCOME | | | AMOUNT OF DEDUCTION |
|---|---|---|---|
| $ 0 | - | 999 | $ 0 |
| 1,000 | - | 1,999 | $ 0 |
| 2,000 | - | 2,999 | the product of .006 times the household income |
| 3,000 | - | 3,999 | the product of .016 times the household income |
| 4,000 | - | 4,999 | the product of .024 times the household income |
| 5,000 | - | 5,999 | the product of .028 times the household income |
| 6,000 | - | 6,999 | the product of .032 times the household income |
| 7,000 | - | 7,999 | the product of .035 times the household income |
| 8,000 | - | 8,999 | the product of .039 times the household income |
| 9,000 | - | 9,999 | the product of .042 times the household income |
| 10,000 | - | 10,999 | the product of .045 times the household income |
| 11,000 | - | 11,999 | the product of .048 times the household income |
| $ 12,000 | & | over | the product of .050 times the household income |

"Household income" as used in this table is equal to "gross household income" less $6,300. Gross household income (GHI) is all income of all individuals in the household, and includes federal adjusted gross income plus all nontaxable income as defined in statute. Eligibility for the program is phased out for households with GHI between $35,000 and $45,000. Households with GHI up to $35,000 are entitled to 100% of the credit; households with GHI between $35,000 and $37,500 are allowed 40% of the credit; households with GHI between $37,500 and $40,000 are allowed 30% of the credit; households with GHI between $40,000 and $42,500 are allowed 20% of the credit; households with GHI between $42,501 and $44,999 are allowed 10% of the credit; and households with GHI of $45,000 or more are ineligible for the program.

The maximum credit allowed is $1,000.

A specific example will help to clarify how this program works. Assume the taxpayer lives in a house valued at $75,000 and pays property taxes based on a levy of 400 mills. The taxpayer has $15,500 of total income. Based on these assumptions, this individual is entitled to a credit equal to $385 for tax year 2001, calculated as follows:

**ELDERLY HOME OWNER/RENTER CREDIT CALCULATION**

| | |
|---|---|
| Market value | $ 75,000 |
| Homestead Exemption (27.5%) | $ (20,625) |
| Taxable Market Value | $ 54,375 |
| Taxable Value Rate | x .035435 |
| Taxable Value | $ 1,927 |
| Mill Levy | x .400 |
| Property Tax | $ 771 |
| Gross income | $ 15,500 |
| Exclusion | - 6,300 |
| Household Income | $ 9,200 |
| Deduction Factor | x .042 |
| Deduction | $ 386 |
| **Credit ($771 - $386)** | **$ 385** |

As described earlier, certain individuals will not be eligible for the credit depending on the relationship of their property tax to their income. In the above example, individuals with the same property tax but whose incomes exceed $24,660 would not be entitled to any credit, because the calculation of the deduction amount would exceed the property tax paid.

**Program Use**
The following information shows the number of people using this program, the total credit taken, and the average credit for tax years 1990 through 1999.

**ELDERLY HOME OWNER/RENTER CREDIT UTILIZATION**

| Tax Year | Claimants | Total Credit | Average Credit |
|---|---|---|---|
| 1990 | 16,490 | $ 3,586,692 | $ 217 |
| 1991 | 17,294 | $ 4,091,665 | $ 237 |
| 1992 | 18,234 | $ 4,522,814 | $ 248 |
| 1993 | 19,079 | $ 5,068,179 | $ 266 |
| 1994 | 21,346 | $ 5,819,413 | $ 273 |
| 1995 | 21,859 | $ 7,968,802 | $ 365 |
| 1996 | 22,002 | $ 8,200,406 | $ 392 |
| 1997 | 20,188 | $ 8,616,585 | $ 427 |
| 1998 | 20,181 | $ 8,816,342 | $ 437 |
| 1999 | 21,456 | $ 8,875,760 | $ 414 |

## ELDERLY HOME OWNER/RENTER CREDIT
## (2000 TAX YEAR)
## Form 2EC

Elderly taxpayers may receive a tax credit of up to $1,000 against individual income tax based on property tax or rent payments during the tax year. Taxpayers are allowed a refund of the credit amount even if the taxpayer has no individual income tax liability.

**Age**
The taxpayer or spouse must be age 62 or older as of December 31 in the tax year for which the credit is claimed.

**Residency**
1. Taxpayer must have resided in Montana for nine months or more; and
2. Must have occupied a Montana residence as owner or renter for a total of six months or more during the tax year for which the credit is claimed.

**Filing Information**
Form 2EC can be filed with the Montana income tax return, or by itself if the individual is not required to file a tax return. **Only one claim per household may be filed.**

**Due Date**
Form 2EC must be submitted on or before April 15 following the tax year for which the credit is claimed.

If Form 2EC is filed late, a letter stating the reason for being late must be attached. If there is good reason for the late filing, the claim will be accepted. Claims filed more than five years late will not be accepted.

**Mailing Address**

Montana Department of Revenue
P.O. Box 6577
Helena, MT 59604-6577

**Questions**
Telephone 444-6900.

**Computation**
The credit is computed using household income and total property taxes billed (including special assessments and fees) on the residence and land, or rent paid in the tax year for which the credit is taken.

**Household**
An association of persons who live in the same dwelling, sharing its furnishings, facilities, accommodations and expenses. It does not include bona fide lessees, tenants, or roomers and boarders on contract.

**Household Income**
Includes total income, whether taxable or not, received by all individuals of a household while they are members of the household. Total income is reduced by $6,300 to arrive at household income. Income (such as social security) paid directly to a nursing home by an agency is not considered income. Losses cannot be included with income.

**Examples**

1. Wages, fees, bonuses, capital gains, ordinary income, interest, & dividends.
2. Total income for business, partnerships, rents, royalties, etc.
3. Payments and interest on federal, state, county & municipal bonds.
4. Alimony, public assistance, unemployment, & tax refunds.
5. All pensions & annuities, including railroad retirement, PERS, veteran's disability & social security.

**Net Allowable Household Income**
Computed by multiplying household income by a multiplier figure provided on Form 2EC.

If net allowable household income is less than allowable property tax and/or rent paid, the individual will receive a refund for the difference, not to exceed $1,000.

**General Property Taxes**
The credit is based on total property taxes levied against the house and surrounding land, not in excess of one acre, including special assessments. Penalties or interest paid during the claim period are not allowed.

**Special Assessments**
Includes: transit fees, city assessment, sprinkling, sanitation, maintenance fees, garbage, landfill, storm sewer, paving, lighting, irrigation, water system, sweeping, T.V. district, predator or mosquito control, livestock, rural fire, and any special improvement district (SID) charges.

**Rental Equivalency of Property Tax**
Computed by multiplying rent paid on the residence by 15%.

## VERIFICATION REQUIRED BY THE DEPARTMENT OF REVENUE

**Homeowner**
A copy of the property tax bill or a document from the county treasurer showing total general taxes billed in the tax year, including special assessments and fees, must be attached to Form 2EC.

**Renter**
Residents of subsidized housing are allowed to claim the credit. Only the actual amount of rent paid can be claimed. Copies of canceled checks or a rent receipt from the landlord must be attached to Form 2EC.

**Homeowner & Renter**
Attach rent and property taxes billed if you (1) own your home and rent the land or (2) rent your home and own the land.

See form in Appendix I (in the back of the guide).

## FOREST LAND IN MONTANA

**How Is Forest Land Valued?**
The Montana Legislature passed the Forest Lands Tax Act in 1991. This law requires the Department of Revenue to value forest land based on land productivity.

The legislature defined the productivity formula and each component of that formula. It also provided for specific forest valuation zones, with each zone designated to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability, and other factors important to the valuation of the forest land in that geographic area.

The potential productivity system was supported by the forest products industry, the Montana Tree Farmer's Association and other forestry landowners.

**How Does the Productivity Classification System Work?**
Forested land must be at least 15 contiguous acres or larger in size and in the same ownership to be classified as commercial forest land. Forested land less than 15 contiguous acres in size is classified as nonforest land.

Potential forest growth is estimated for each acre of forested land, including "clearcuts." That growth is measured in cubic feet per acre per year. The estimated potential forest growth is placed in one of four productivity classes.

Forested land which does not meet the minimum growth requirement is classified as noncommercial forest land. This minimum growth requirement is 25 cubic feet per acre per year at the peak biological age of a stand (the technical forestry term for peak biological age is "culmination of mean annual increment"). Noncommercial forest land is not valued as forest land for property tax purposes.

Nonforest and noncommercial forest land may be valued as tract land, agricultural land or "Nonqualifying" agricultural land.

**MONTANA FOREST LAND CLASSIFICATIONS**

| | | |
|---|---|---|
| Class IV | poor productivity | (25 to 44.9 cu.ft./ac.yr.) |
| Class III | fair productivity | (45 to 64.9 cu.ft./ac.yr.) |
| Class II | good productivity | (65 to 84.9 cu.ft./ac.yr.) |
| Class I | excellent productivity | (85+ cu.ft./ac.yr.) |

**Does the Forest Land Valuation System Tax Standing Timber?**
No. Standing timber is exempt from property taxation. Only the land, not the standing timber, is eligible for property taxation. If a land owner deeds his timber to another party, the landowner, not the timber owner is responsible for the forest land property tax.

**Does the Productivity Tax Pressure Landowners to Harvest Their Timber?**
No. On any given commercial forest land site, a clear-cut would receive the same value as an old growth stand (standing timber is not taxed). Forest management practices will not influence the forest assessment. Knowledgeable forest landowners will realize that they can practice intensive forest management to optimize wood production and enhance other nontimber elements, without the penalty of higher forest land property taxes.

**Isn't Agricultural Land Valued on the Basis of Productivity?**
Yes. Agricultural and forest lands are often intertwined. Both types of land are valued under the "productivity" concept.

**Explain the Productivity Formula to Me.**
The formula can be described as:

$$\text{Appraised Value} = \frac{\text{Net Forest Income + Net Grazing Income}}{\text{Capitalization Rate}}$$

Net Forest Income = Gross Forest Income - Forest Costs
Net Grazing Income = Gross Grazing Income - Grazing Costs
Capitalization rate = This rate is used to convert a net income stream into an estimate of present value.

**Who Compiles the Information Used in this Formula?**
Many people are instrumental in compiling the valuation information. The Montana Department of Revenue hires a nationally recognized forest economist at the University of Montana, School of Forestry, to develop the forest land valuation zones and the average stumpage value in each valuation zone. The Department of Revenue compiles the forest costs and the capitalization rate.

Representatives from the forest products industry and Montana Tree Farmer's Association review the data and provide their input.

**How Does the Valuation System Work?**
The forest and agricultural land appraisal system uses valuation schedules to apply a single value to each productivity grade. Agricultural land appraisal uses a single, statewide valuation schedule. Forest land appraisal uses five valuation schedules in the state. The forest land classification system contains four productivity grades. Therefore, there are 20 different per acre forest land values in the state.

Each value in a schedule represents a range of productivity, income, costs, and interest rates. Income and expense data represent averages for a base period of time. The forest land schedules which were implemented in 1997, use data compiled from 1991-1995. The values associated with the new schedules were phased-in in accordance with SB184. The next appraisal cycle will be implemented in 2003.

**Explain the Forest Land Tax Class Percentage to Me.**
The legislature assigns all taxable property to individual tax classes. There are currently 12 property tax classes. Forest land is in Property Tax Class 10. The legislature specifies the tax class percentages that are applied against the value of the property within each tax class to calculate the taxable value.

A parcel of land may have several classes of property. The most common property classes for rural land are forest land, agricultural land, "nonqualifying" agricultural land, and a one acre homesite. Each property class has a different tax class percentage. The tax class percentages for 2001 and 2002 are listed below.

**Agricultural Land Property Type and Tax Rate**

| | Tax Rate | |
|---|---|---|
| **Type of Land Parcel** | **Tax Year 2001** | **Tax Year 2002** |
| Agricultural Land | 3.543% | 3.460% |
| Forest Land | 0.460% | 0.350% |
| Nonqualifying Agricultural Land | 24.801% | 24.220% |
| 1 Acre Home Site | 3.543% | 3.460% |

The forest land taxable value is 0.46% in 2001. It requires $10,000 in forest land appraised value to produce $46 in taxable value. In contrast, $10,000 in agricultural appraised value will produce $354 in taxable value.

**How Do I Calculate The Tax on My Forest Land?**

Example:

Assume that in 2001 you own a 130-acre parcel of land in Missoula County. This county is located in forest valuation zone two. The parcel has 30 acres of forest land and 100 acres of nonforest land . The forest land has 20 acres of fair productivity and 10 acres of poor productivity. The 100 acres of nonforest land does not meet agricultural eligibility requirements and is classified as nonqualified agricultural land. The 2001 fair forest land value (grade III) is $559.25 per acre. The poor forest land productivity (grade IV) is $339.48. The statewide 2001 nonqualified agricultural value is $38.19 per acre. For this tax calculation example, we assume the mill levy for 2001 is 390 mills.

**2001 FOREST LAND TAX CALCULATION**

20 acres x $559.25/acre = $11,185 (appraised value - forest land)
10 acres x $339.48/acre = $ 3,395 (appraised value - forest land)
100 acres x $38.19/acre = $ 3,819 (appraised value - non-qualified agricultural land)

Total Forest Land Appraised Value = $14,580
Total Nonqualified Agricultural Appraised Value = $3,819

$14,580 x 0.46% (tax class 10) = $ 67 (taxable value)
$3,819 x 24.801% (tax class 3) = $947 (taxable value)

$67 + $947 = $1,014 (total taxable value)
$1,014 X .390 (mill levy) = $395.46 (tax)

**Note:** The decimal point in a mill levy is moved three places to the left to calculate the tax, so 390 mills equals .390.

**What Is the Average Forest Land Tax in Montana?**
The weighted average forest land tax in 1996 was $0.61 per acre. As a result of SB184, the 1999 weighted average of forest land tax is $.83 per acre. The weighted average taxable value in 1996 was $1.79 per acre. The weighted average taxable value in 1999 is $2.16 per acre.

**How Do I Know What My New Forest Land Values Are?**
When there is a change in valuation or ownership, the Department of Revenue mails property assessment notices, to the owner of record, that reflect the value of the property as of January 1 of that year. All forest land owners received a new assessment notice in the spring of 1997 showing the change in appraised and taxable values that resulted from implementation of the new forest land valuation schedules. For those taxpayers who can not locate their assessment notice, the local Department of Revenue office in the county where the forest land property is located will have the valuation information.

**Where Can I Go to See How My Forest Land Values Were Determined?**
The forest land valuation schedules and a state map depicting the forest land valuation zones may be obtained from your local Department of Revenue office. The maps depicting the productivity classifications can be viewed in the Department of Revenue office of the county where the property is located.

**Can I Appeal My Forest Land Property Value?**
Yes. Your property appeal rights and appeal dates are identified on your assessment notice. However, prior to filing an appeal, we would like the opportunity to answer any questions or concerns you might have with the value we have placed on your property. For this reason, we provide an informal review process. The process allows you to make a written request for valuation review. Begin the valuation review process by completing the request form, known as an AB-26. By submitting this completed form, you have the opportunity to explain why you believe the value on your assessment notice is incorrect. Submitted forms require that local staff review your written concerns and recommendations and that they give you a written response.

If we can not resolve your concerns to your satisfaction through the informal appeal process, there are Appeal Boards available in your county to hear your concerns. Please do not wait until you receive a tax bill to voice your concerns. Your tax bill includes items, other than value, such as special improvement district assessments, rural district charges, and various fees. Again, if you have waited until after you have received your tax bill to express a concern about your forest land value, the deadline for appeal will have expired. For specific time frames, please refer to your assessment notice.

**We Are Pleased to Visit with You about Your Forest Land Property Assessment.**
Everyone who is involved in the taxation process wants to help you understand how your property taxes are determined and what services your property tax dollar provides. For more information about your assessment, please contact the Department of Revenue office located in your county.

## HISTORY OF AGRICULTURAL LAND TAXATION IN MONTANA

As of July 1, 1973, the Department of Revenue was delegated the responsibility for classifying all agricultural lands. Previously, that was the duty of the county commissioners under Chapter 191, Laws of 1957. As with the previous law, the values determined by the department were to be based on the productive capacity of the land, i.e., the ability of the land to produce income from a cash crop (wheat, hay, forage for grazing, etc.).

Standardized agricultural land valuation schedules were developed in the early 1960s. The standardized values were based on a capitalization of net operating income (gross income less operating expenses). Data sources for income, expense and production information included the USDA Crop and Livestock Reporting Service, Montana Department of Agriculture Statistics, the ASCS, SCS, BIA, BLM and other government agencies.

The department updated and revised the agricultural land valuation schedules for the reappraisal cycle which concluded on December 31, 1985. Again, the primary source of the data was the various government agencies listed above. A concerted effort was made to include individual operations and agriculturally related associations to help refine the figures.

After developing the new valuation schedules, public comment was solicited through the administrative rules process. Agriculturalists expressed their lack of support of the new valuation schedules because the new schedules would have increased the valuation of some types of agricultural land. To address their concerns, former Governor Ted Schwinden suspended the rules hearing process. Governor Schwinden directed the department to assemble an advisory committee to review the data and procedures and make changes if necessary.

The advisory committee had difficulty arriving at a consensus on the agricultural land valuation schedules. The 1985 Legislature froze the agricultural land valuation schedules that were in effect, specified the approach for developing future agricultural land valuation schedules and required the formation of an agricultural advisory committee.

In September 1990, the Department of Revenue Agricultural Advisory Committee was appointed. The committee reviewed, evaluated and recommended changes to the taxation of agricultural land. It presented its recommendations at public meetings held throughout the state. The recommendations of that committee were presented in legislation that was passed by the 1993 Legislature as Senate Bill 168. It required specific methodology, formula, and data sources in the calculation of the new agricultural land valuation schedules. While the appraised value of agricultural land increased significantly, the statewide impact of the new schedules was taxable value neutral. There were shifts in value, however, within the various classes of agricultural land (i.e. grazing, non-irrigated farm land, continuously cropped hay land, non-irrigated continuously cropped farm land, and tillable irrigated land). The tax rate for agricultural land was reduced from 30% to 3.86%. That was the same rate used for residential and commercial property.

To mitigate the impact on agricultural taxpayers, the bill provided a phase-in of the change in taxable values over a four-year period. That affected both increases and decreases in value.

Finally, Senate Bill 168 established another interim agricultural land advisory committee to review water costs and other issues applicable to the valuation and assessment of agricultural land. That committee was appointed in November 1993. It made recommendations to the Department of Revenue. Committee recommendations adopted by the 1995 Legislature in Senate Bill 198 included:

- allowing a base water cost of $ 5.50 per irrigated acre
- establishing an energy cost base year for irrigated land
- limiting allowable water costs to a maximum of $35 per acre of irrigated land
- continuing the phase-in of the taxable value of irrigated land

In May 1996, another agricultural land valuation advisory committee was appointed as required by law. The committee reaffirmed the specific methodology, formula and data source requirements in current law, updated those requirements using current data, and recommended new agricultural land valuation schedules to the Department. In accordance with the provisions of SB184, passed by the 1999 Legislature, the new schedules were phased-in. For those agricultural land types that had a decrease in valuation, the decrease in the valuation was not phased-in but realized immediately. For those agricultural land types that had an increase in valuation, the increase is phased-in over a four year period, beginning in 1999.

## VALUATION FORMULA FOR AGRICULTURAL LAND

Statutory formula for determining productive capacity value:

The formula for valuation of agricultural land is: **V = I/R**

Where:

- **V** - is the value of each type of agricultural land.
- **I** - is the net income of each type of agricultural land.
- **R** - is the capitalization rate. That rate converts the net income estimate into an estimate of productive value.

Example of Calculation:

Income Per Acre = $50
Capitalization Rate = 6.4%
Value = $781.25 Per Acre
V = $50 ÷ 6.4% = $781.25/Acre

If the Capitalization Rate decreases, the taxable value and property tax on the land increases. If the Capitalization Rate increases, the taxable value and property tax on the land decreases.

## CLASSIFICATION OF AGRICULTURAL LAND TAXATION

Over 50 million privately owned acres are classified as agricultural land in Montana.

Classification is the determination of the agricultural use and the productive capability of that use for each acre of taxable agricultural land.

**The criteria for classifying property as agricultural are:**

1. Parcels of land 160 acres or more under one ownership are taxed as agricultural land. These lands are taxed at 3.543% of their agricultural productive capacity value in 2001 and 3.460% in 2002.

2. Parcels of land containing 20 acres or more but less than 160 acres under one ownership are taxed as agricultural land if the land is used primarily for raising and marketing agricultural products. The agricultural use test presumes that land is agricultural if $1,500 in annual gross income is produced and marketed from the land by the owner, owner's immediate family, agent, employee or lessee. These parcels are taxed at 3.543% of their agricultural productive capacity value in 2001, and 3.46% in 2002. Parcels of land containing 20 acres or more but less than 160 acres which do not qualify under these criteria are considered non-qualified agricultural land. These non-qualifying parcels are valued as average (Grade 3) grazing land. The taxable value of the non-qualifying taxable land is then computed by multiplying that value by seven times the tax rate for agricultural land. Since the current rate for agricultural land in 2001 is 3.543%, the tax rate for this property in 2001 is 24.801%.

3. Parcels of land less than 20 acres under one ownership are taxed as agricultural land if they produce and the owner markets $1,500 in annual gross income from the raising of livestock, poultry, field crops, fruit, and other animal or vegetable matter for food or fiber.

4. Land is not valued as agricultural if it is subdivided with stated restrictions prohibiting its use for agricultural purposes. The land may not be devoted to a residential, commercial or industrial purpose.

## AGRICULTURAL CLASSES OF LAND

### Grazing Land

Those lands, either native range or domestic range, which are used to support agricultural livestock. Grazing land is graded on the basis of the soils capacity to produce palatable forage for livestock without causing injurious effect to the vegetative cover of the land. Carrying capacity is measured in Animal Unit Months per acre (AUM/AC) or acres per Animal Unit Month (AC/AUM). Grazing land which is irrigated a majority of the time and has a reliable source of water will be classified as irrigated land. Dryland alfalfa or grazing land which is not irrigated or hayed a majority of the time is classified as grazing.

### Tillable Irrigated Land

All hayland and cropland that is irrigated a majority of the time (2 out of 3 years, 3 out of 5 years, etc.). All agricultural land, including grazing land, in a specified irrigation district where the land is designated as irrigable, with shares of water appurtenant to such land, shall be classified as irrigated, regardless of whether the water is actually applied or not applied to the land.

Land that has water for irrigation most years shall be classified as irrigated if the water is used. Those lands with water available most years but the water is not used, will be classified according to current use.

Land that is irrigated only during high water may be classified according to use, but it should carry a higher grade to reflect the occasional extra water and increased production.

Irrigated schedules are based on tons of alfalfa per acre. Alfalfa is the predominant crop grown on irrigated fields. Adjustments can be made for other cash crops using a conversion guide.

There are three rotations, each indicative of the cash value achieved from the production of generally-accepted irrigated crops grown in a particular area. As shown below, these rotations are generally differentiated by the variety of crops which can be grown in a particular area (i.e., the options a grower has in rotating various crops on his/her irrigated cropland acreage). The number of frost-free days may influence the extent of options available. However, available cropping options are not limited exclusively by frost-free days.

Minimum Rotation: 90 or less frost-free days. Production from this land would be limited to alfalfa hay and small grains. Growers would not have the option to profitably produce any other crops over a sustained period of years. Medium Rotation: 91 to 110 frost-free days. Lands are placed in this rotation when the grower has the option of producing a greater variety of crops than listed in the minimum rotation. Growers should be able to produce alfalfa hay, alfalfa seed, small grains, edible beans, sunflowers, safflowers, and potatoes.

Maximum Rotation: 111 or more frost-free days. These lands are capable of producing any crop which can typically be grown in Montana. Examples are all crops grown in minimum and medium rotations and, also, corn for silage, corn for grain, and sugar beets.

Climatological data should be utilized to assist appraisers in placing irrigated land into the proper rotation.

**Continuously Cropped Non-Irrigated Hayland**
Lands on which the native vegetation, non-irrigated alfalfa or other domestic varieties are cut for hay yearly or a majority of the time over a period of years. Hayland which is irrigated less than a majority of the time or that does not have a reliable source of water is classified as continuously cropped non-irrigated hayland. It should carry a higher grade to reflect the occasional irrigation.

**Non-Irrigated Farmland: Summer Fallow and Continuously Cropped**
Typical dryland farming found in the majority of Montana. Strip farming or "block farming" are the most common forms of non-irrigated farmland.

Summer fallow: Typically, crops are produced every other year or every third year and the land is left idle in the off years.

Continuously cropped lands are found primarily in northwestern Montana. Normally, crops are grown 3 out of 4 years and it must be an accepted practice for the area.

Grading is based on bushels of wheat per acre. Conversions are made for barley production.

## AGRICULTURAL LAND CLASS VALUATION SCHEDULE

Valuation is the determination of agricultural land valuation schedules and the application of those valuation schedules to each acre of taxable agricultural land. The agricultural land valuation schedules by class are shown onthe following two pages.

## Class 1, Maximum Rotation, Assessed Value per Acre By Water Cost Categories

| | | Water Class | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2 | 3 | 4 | 5 | 6 | 7 |
| | Tons of | $5 - $9.99 | $10 - $14.99 | $15 - $19.99 | $20 - $24.99 | $25 - $29.99 | $30 + |
| Grade | Alfalfa/AC | ($7.50 mdpt) | ($12.50 mdpt) | ($17.50 mdpt) | ($22.50 mdpt) | ($27.50 mdpt) | ($32.50 mdpt) |
| 1a | 4.5 + | 864.43 | 789.49 | 716.05 | 642.62 | 569.18 | 492.04 |
| 1b | 4.0 - 4.4 | 759.68 | 684.91 | 611.47 | 538.03 | 463.80 | 385.67 |
| 2 | 3.5 - 3.9 | 654.71 | 580.24 | 506.81 | 433.37 | 357.43 | 309.29 |
| 3 | 3.0 - 3.4 | 550.18 | 466.19 | 397.43 | 328.69 | 278.74 | 278.74 |
| 4 | 2.5 - 2.9 | 445.53 | 371.43 | 298.00 | 246.16 | 246.16 | 246.16 |
| 5 | 2.0 - 2.4 | 340.46 | 266.57 | 199.06 | 198.64 | 198.64 | 198.64 |
| 6 | 1.5 - 1.9 | 236.69 | 167.15 | 166.71 | 166.71 | 166.71 | 166.71 |
| 7 | 1.0 - 1.4 | 133.91 | 121.40 | 121.40 | 121.40 | 121.40 | 121.40 |
| 8 | > 1.0 | 91.07 | 91.07 | 91.07 | 91.07 | 91.07 | 91.07 |

## Class 2, Medium Rotation, Assessed Value per Acre By Water Cost Categories

| | | Water Class | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2 | 3 | 4 | 5 | 6 | 7 |
| | Tons of | $5 - $9.99 | $10 - $14.99 | $15 - $19.99 | $20 - $24.99 | $25 - $29.99 | $30 + |
| Grade | Alfalfa/AC | ($7.50 mdpt) | ($12.50 mdpt) | ($17.50 mdpt) | ($22.50 mdpt) | ($27.50 mdpt) | ($32.50 mdpt) |
| 1a | 4.5 + | 775.04 | 707.39 | 641.29 | 575.20 | 500.11 | 442.84 |
| 1b | 4.0 - 4.4 | 680.70 | 613.29 | 547.20 | 481.11 | 415.02 | 347.10 |
| 2 | 3.5 - 3.9 | 586.64 | 519.47 | 453.37 | 387.28 | 321.19 | 306.77 |
| 3 | 3.0 - 3.4 | 492.86 | 425.90 | 359.81 | 293.71 | 278.74 | 278.74 |
| 4 | 2.5 - 2.9 | 399.36 | 332.60 | 266.51 | 243.17 | 243.17 | 243.17 |
| 5 | 2.0 - 2.4 | 306.14 | 239.55 | 197.41 | 197.41 | 197.41 | 197.41 |
| 6 | 1.5 - 1.9 | 213.58 | 166.71 | 166.71 | 166.71 | 166.71 | 166.71 |
| 7 | 1.0 - 1.4 | 118.32 | 116.78 | 116.78 | 116.78 | 116.78 | 116.78 |
| 8 | > 1.0 | 91.07 | 91.07 | 91.07 | 91.07 | 91.07 | 91.07 |

## Class 3, Minimum Rotation, Assessed Value per Acre By Water Cost Categories

| | | Water Class | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2 | 3 | 4 | 5 | 6 | 7 |
| | Tons of | $5 - $9.99 | $10 - $14.99 | $15 - $19.99 | $20 - $24.99 | $25 - $29.99 | $30 + |
| Grade | Alfalfa/AC | ($7.50 mdpt) | ($12.50 mdpt) | ($17.50 mdpt) | ($22.50 mdpt) | ($27.50 mdpt) | ($32.50 mdpt) |
| 1a | 4.5 + | 686.59 | 626.28 | 567.53 | 508.78 | 450.03 | 391.28 |
| 1b | 4.0 - 4.4 | 603.42 | 543.34 | 484.59 | 425.84 | 367.09 | 308.34 |
| 2 | 3.5 - 3.9 | 520.39 | 460.52 | 401.77 | 343.02 | 303.72 | 303.72 |
| 3 | 3.0 - 3.4 | 437.50 | 377.83 | 319.08 | 272.63 | 272.63 | 272.63 |
| 4 | 2.5 - 2.9 | 354.75 | 295.27 | 242.16 | 241.66 | 241.66 | 241.66 |
| 5 | 2.0 - 2.4 | 272.12 | 212.83 | 196.49 | 196.49 | 196.49 | 196.49 |
| 6 | 1.5 - 1.9 | 190.48 | 166.71 | 166.71 | 166.71 | 166.71 | 166.71 |
| 7 | 1.0 - 1.4 | 121.56 | 121.40 | 121.40 | 121.40 | 121.40 | 121.40 |
| 8 | > 1.0 | 91.07 | 91.07 | 91.07 | 91.07 | 91.07 | 91.07 |

## CLASSES, GRADES AND VALUES FOR MONTANA AGRICULTURAL LANDS AS APPROVED BY THE DEPARTMENT OF REVENUE

### NON IRRIGATED FARMLAND SUMMER FALLOW BASIS (F)

| Grade | Bushels Wheat Per Acre Summer Fallow | 2001 Assessed Value/AC |
|---|---|---|
| f1a8 | 40 & over | $ 309.29 |
| f1a7 | 38 - 39 | $ 294.01 |
| f1a6 | 36 - 37 | $ 278.74 |
| f1a5 | 34 - 35 | $ 263.47 |
| f1a4 | 32 - 33 | $ 248.19 |
| f1a3 | 30 - 31 | $ 232.92 |
| f1a2 | 28 - 29 | $ 217.65 |
| f1a1 | 26 - 27 | $ 202.37 |
| f1a | 24 - 25 | $ 187.10 |
| f1b | 22 - 23 | $ 171.83 |
| f2a | 20 - 21 | $ 156.55 |
| f2b | 18 - 19 | $ 141.28 |
| f2c | 16 - 17 | $ 125.59 |
| f3a | 14 - 15 | $ 109.73 |
| f3b | 12 - 13 | $ 94.05 |
| f4a | 10 - 11 | $ 78.54 |
| f4b | 8 - 9 | $ 63.20 |
| f5 | Under 8 | $ 30.11 |

### GRAZING LAND (G)

| Grade | Acres/1000# Steer 10 Mo. Ac/AUM | 2001 Assessed Value/AC |
|---|---|---|
| 1A2 | Under 3 | $ 621.90 |
| 1A1 | 3 - 5 | $ 314.84 |
| 1A+ | 5.1 - 5.9 | $ 228.57 |
| 1A | 6 - 10 | $ 156.68 |
| 1B | 11 - 18 | $ 86.08 |
| 2A | 19 - 21 | $ 62.19 |
| 2B | 22 - 27 | $ 50.57 |
| 3 | 28 - 37 | $ 37.95 |
| 4 | 38 - 55 | $ 26.48 |
| 5 | 56 - 99 | $ 15.87 |
| 6 | 100 & Over | $ 9.80 |

### NON IRRIGATED CONTINUOUSLY CROPPED HAYLAND (WH)

| Grade | Tons Of Hay Per Acre | 2001 Assessed Value/AC |
|---|---|---|
| 1 | > 3.0 | $ 633.67 |
| 2 | 2.5 - 2.9 | $ 566.66 |
| 3 | 2.0 - 2.4 | $ 460.87 |
| 4 | 1.5 - 1.9 | $ 354.94 |
| 5 | 1.0 - 1.4 | $ 249.90 |
| 6 | .5 - .9 | $ 145.19 |
| 7 | < .5 | $ 52.76 |

### NON IRRIGATED FARMLAND, CONTINUOUSLY CROPPED BASIS (CC)

| Grade | Bu. Wheat Per Acre Per Year | 2001 Assessed Value/AC |
|---|---|---|
| 1A4 | 44 & Over | $ 679.67 |
| 1A3 | 42 -43 | $ 649.12 |
| 1A2 | 40 - 41 | $ 618.57 |
| 1A1 | 38 - 39 | $ 588.03 |
| 1A | 36 - 38 | $ 557.48 |
| 1 | 34 - 35 | $ 526.93 |
| 2 | 32 - 33 | $ 496.39 |
| 3 | 30 - 31 | $ 465.84 |
| 4 | 28 - 29 | $ 435.29 |
| 5 | 26 - 27 | $ 403.29 |
| 6 | 24 - 25 | $ 371.44 |
| 7 | 22 - 23 | $ 339.82 |
| 8 | 20 - 21 | $ 308.43 |
| 9 | 18 - 19 | $ 277.26 |
| 10 | 16 - 17 | $ 246.61 |
| 11 | 14 - 15 | $ 215.63 |
| 12 | 12 - 13 | $ 185.16 |
| 13 | 10 - 11 | $ 154.91 |
| 14 | Less than 10 | $ 74.70 |

The Compliance Valuation and Resolution Process of the Department of Revenue currently uses three computer systems in Property Tax:

1. BEVS (Business Equipment Valuation System)
2. CAMAS (Computer-Assisted Mass Appraisal System)
3. MODS (Montana Ownership Database System)

## BEVS

The Business Equipment Valuation System (BEVS) is a computer-assisted valuation system used by the department to value and assess personal property business equipment and livestock subject to ad valorem taxation. BEVS generates market value for over 88,000 parcels of property containing equipment and livestock. These valuations are based on characteristic data identified in the system such as quantity, make, model, year acquired, acquired cost, etc. The value of each piece of equipment and/or livestock identified for a specific business owner is recapped by class code to produce a valuation roll-up, or master record, for that property.

Two years of personal property information (current/previous) are maintained on BEVS. The current year's information is stored in a "working file" where changes are made and reports gathered. The previous year's information is used for viewing only.

BEVS provides the department the ability to generate itemized reporting forms. New property owners only need to review the previously reported personal property and update the information for the current year. This has resulted in a substantial savings in time to property owners.

BEVS provides the ability to list and value business equipment and livestock reported to the department by property owners more accurately and uniformly than ever before. Its reporting functions enable staff to produce statistical reports by specific property types which can be used to identify discrepancies in valuations between similar businesses.

Automation of business equipment and livestock valuation has greatly enhanced efficiency and allows department staff the opportunity to concentrate their efforts on other responsibilities such as on-site field inspections of farms and businesses to ensure a greater degree of accuracy and equity in the valuation and assessment of these properties.

## CAMAS

The CAMAS (Computer-Assisted Mass Appraisal System) is a set of computer programs and user procedures that help create and maintain a database of property information for each county in the state. The database holds the records of property characteristics that affect the tax evaluation of each taxable parcel in the state. It uses these files to produce computer-assisted cost and market valuations of the residential and agricultural properties, and cost and income valuations of the commercial and industrial properties.

CAMAS provides the department with the ability to utilize all three approaches to value: COST, MARKET and INCOME.

### Cost Approach

The CAMAS cost program provides appraisers with the ability to estimate the depreciated cost of reproducing or replacing a building and its site improvements. This is accomplished by determining the replacement cost new of a structure and deducting any loss in value do to physical deterioration, and functional or economic obsolescence.

The significance of the Cost Approach lies in the extent of its application. It is the one approach that can be used on all types of construction on each type of property. It is a starting point for appraisers in determining the value of a property. Its widest application is in the appraisal of properties where the lack of adequate market and income data preclude a reasonable application of the other traditional approaches to value.

**Market Approach**
The CAMAS market modeling program gives appraisers the ability to value property using the comparable sales approach to establish market value. When a sufficient number of sales are available, market models can be developed. The models are then applied, in conjunction with a comparable sales analysis, to provide an estimate of the market value of each property. In making this analysis, individual properties are valued using three to five comparable sales. The comparable sales are adjusted to the subject for differences such as square foot of living area, location, year built, date of sale, quality grade, etc. The adjustments for each comparable are then applied to their sale price. The result is an estimate of value for the subject property, based on the adjusted sales of the comparable properties.

**Income Modeling**
CAMAS income modeling gives the appraiser the ability to value income producing properties using the income approach to value. In applying the income approach to value, the appraiser must determine market rents, expenses and appropriate capitalization rates.

When income modeling the appraiser develops a basic set of income and expense models based on market data. Through use of a capitalization rate, income is capitalized into an estimate of value. The models created reflect current economic trends in specific valuation areas. The value indications produced by the income approach and the cost approach are compared. A final value for the property is then determined.

The primary objective of CAMAS is to assist the department in determining uniform, accurate, equitable and defensible valuations of all types of classes of real property statewide. CAMAS has enabled the department to produce accurate, detailed reports and statistical information pertaining to the valuation of over 727,000 residential, commercial, industrial, agricultural, and forest land properties statewide.

CAMAS has allowed the department to complete reappraisal cycles with fewer employees than any previous cycle. In the last year of the department's 1978 reappraisal cycle, the Property Assessment Division employed 784 FTE. During the last year of the 1986 reappraisal cycle, the division employed 465 FTE. The division was authorized 418 FTE to complete the 1993 reappraisal cycle. The department had 353 authorized FTE to complete the reappraisal that concluded on December 31, 1996. The staffing was further reduced by 34 FTE by the 1997 Legislature.

### MODS
The Montana Ownership Database System (MODS) provides the Department of Revenue staff the ability to maintain, real and personal property ownership and address information for over 796,000 parcels of real and personal property subject to ad valorem taxation. MODS contains owner(s) name, mailing address, legal descriptions, and market and taxable values,

Market and taxable values (of all classes of real and personal taxable property) generated by the state's CAMAS and BEVS are uploaded electronically to MODS and stored in summary form by assessment code number. This function provides state and local government with a broad database of real and personal property ownership and valuation information, and allows for electronic preparation of all state and county recap reports and reporting forms from a central database.

The MOD System allows the department to produce and mail assessment notices for every county, from a central location. We are able to utilize the Department of Administration's laser printer, fold/pressure seal machine, and bar-code spraying machine. These features, in conjunction with the MODS on-line Postal Service address certification program, eliminate the need for staff to handle mailings. The department achieved Postal Address Certification of over 91% of the MODS mailing addresses statewide in the first year. This results in reduced postage rates. Local government can take advantage of the certified addresses from MODS to also reduce their mailing costs.

MODS provides the department the ability to produce statewide statistical reports and analysis of valuation, assessment, and taxation information more quickly, efficiently and accurately than ever before.

**Application For Property Tax Assistance Program -** ***first page following***

**Form 2EC - Elderly Homeowner/Renter Credit -** ***second page following***